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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)

RESULTS ANNOUNCEMENT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Xiaomi Corporation 小米集团 (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three and nine months ended September 30, 2021. These interim results have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and reviewed by PricewaterhouseCoopers, the independent auditor of the Company, in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board. The interim 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 and where the context otherwise requires, the Group.

KEY HIGHLIGHTS

	Unaudited				
	Three months ended				
	September 30,	September 30,	Year-	June 30,	Quarter-
	2021	2020	over-year	2021	over-quarter
	(Renminbi (“ RMB ”) in millions, unless specified)				
			change		change
Revenue	78,062.9	72,162.8	8.2%	87,789.0	-11.1%
Gross profit	14,292.3	10,165.7	40.6%	15,148.1	-5.6%
Operating profit	2,729.8	6,696.6	-59.2%	10,725.7	-74.6%
Profit before income tax	1,787.2	5,450.7	-67.2%	9,678.5	-81.5%
Profit for the period	788.6	4,864.4	-83.8%	8,263.3	-90.5%
Non-IFRS measure:					
Adjusted Net Profit	5,175.6	4,128.3	25.4%	6,321.5	-18.1%

	Unaudited		
	Nine months ended		
	September 30,	September 30,	Year-over-
	2021	2020	year change
	(RMB in millions, unless specified)		
Revenue	242,734.0	175,402.8	38.4%
Gross profit	43,601.5	25,425.6	71.5%
Operating profit	21,613.1	14,432.8	49.7%
Profit before income tax	20,532.5	12,772.6	60.8%
Profit for the period	16,840.7	11,517.7	46.2%
Non-IFRS measure: Adjusted Net Profit	17,566.4	9,802.0	79.2%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

In the third quarter of 2021, our total revenue amounted to RMB78.1 billion, representing an increase of 8.2% year-over-year; adjusted net profit for the period was RMB5.2 billion, an increase of 25.4% year-over-year. Our total revenue and adjusted net profit both maintained solid growth despite the shortage of key components globally.

We continued to execute our core “Smartphone × AIoT” strategy. In the third quarter of 2021, despite the global shortage of key components, our global smartphone shipments still reached 43.9 million. According to Canalys, in the third quarter of 2021, our global smartphone shipments ranked No. 3 with a market share of 13.5%. In September 2021, the global monthly active users (“MAU”) of MIUI reached 485.9 million, representing an increase of 32.0% year-over-year. Our AIoT platform also continued to scale up. As of September 30, 2021, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform exceeded 400 million for the first time in our corporate history, and the number of users with five or more devices connected to our AIoT platform (excluding smartphones, tablets and laptops) exceeded 8 million.

We continued to make advancements in the premium smartphone market, while further broadening our user base. In the first three quarters of 2021, the global shipments of our smartphones with retail prices at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets totaled approximately 18 million units, accounting for more than 12% of total smartphone shipments. Notably, for many of our new smartphones launched this year, over half of the users are new Xiaomi users. On the channel front, we further built up our offline retail network, highlighted by over 10,000 offline retail stores in mainland China currently. Our highly digitalized omni-channel retail strategy enables us to generate high turnover and maximize efficiency, while broadening our customer reach and providing a richer user experience.

We remain committed to investing in research and development, which boosts our products' core competitiveness. In the first three quarters of 2021, our cumulative research and development expenditures reached RMB9.3 billion, representing an increase of 51.4% year-over-year. In September 2021, we introduced *Xiaomi Smart Glasses*, boasting a visualized information display and interactive features. In November 2021, we launched our Loop LiquidCool Technology, which improves smartphone heat dissipation under heavy usage. As of September 30, 2021, our research and development team totaled 13,919 employees, accounting for more than 44% of our employees.

2. Smartphones

In the third quarter of 2021, our smartphone revenue totaled RMB47.8 billion with a gross margin of 12.8%, an increase of 4.4 percentage points year-over-year. Despite the global supply shortage of key components, our smartphone shipments in the quarter still reached 43.9 million. According to Canalys, our global smartphone shipments ranked No. 3 in the third quarter of 2021, with a market share of 13.5%.

As we continued to explore technology and product innovation, we gained a deeper understanding of user demand, and continued to improve our competitive position in the premium market. In the first three quarters of 2021, global shipments of our smartphones priced at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets, totaled approximately 18 million, accounting for more than 12% of total shipments. In overseas markets, total shipments of our smartphones priced at or above EUR300, or equivalent, grew by more than 180% year-over-year during the third quarter, mainly in Latin America, Western Europe and the Middle East.

Our user segmentation strategy and new products allowed us to broaden our user base. For many of our new smartphones launched this year, over half of the users are new Xiaomi users. We introduced the brand-new *Xiaomi Civi Series* in September 2021. The *Xiaomi Civi Series* targets chic and fashion-conscious users with a distinctive, stylish and lightweight design.

Adhering to the principles of making premium products accessible to the mass market while improving the quality of mass-market products, our Redmi brand launched the highly competitive *Redmi Note 11* series in October 2021. The *Redmi Note 11 Pro+* features 120W wired charging, enabling a 100% charge in just 15 minutes. It also boasts a 108MP ultra-clear imaging system and AMOLED display with a high refresh rate, creating a well-rounded smartphone with premium configurations sold at extremely competitive prices. The *Redmi Note 11* series¹ sold more than 1 million units in just 11 days following its market debut.

During November's Singles' Day Shopping Festival, Xiaomi and Redmi brand smartphones together ranked No. 1 in sales volume on Tmall.com, JD.com and Suning.com. Our premium smartphones also ranked No. 1 among Android smartphones priced above RMB4,000 on Tmall.com and JD.com. In addition, during the shopping festival, total sales volume of our smartphones from our offline channels increased by more than 110% year over year.

We are keenly aware that a smooth, stable, and secure smartphone operating system is critical for optimal user experience. In the third quarter, we unveiled the MIUI 12.5 Enhanced Version with multiple refinements ranging from underlying structural improvements to seamlessly embedded applications. Separately, Xiaomi and Redmi smartphones achieved top rankings across all price segments in mainland China in the 5G performance evaluation report released by China Telecom in November 2021, a testament to our industry leading position in 5G technology and products.

3. IoT and lifestyle products

Our IoT and lifestyle products segment revenue was RMB20.9 billion during the third quarter of 2021, increasing 15.5% year-over-year. Notably, our overseas IoT and lifestyle products revenue reached a new record high despite the challenges in maritime shipping logistics overseas this quarter.

In the third quarter, against the backdrop of a year-over-year decline in global sales volume of TVs, our global smart TV shipments reached 3.0 million with a year-over-year revenue increase of 19.5%. According to All View Cloud (“AVC”), our TV shipments ranked No. 1 in mainland China for the 11th consecutive quarter and among the top five globally in the third quarter of 2021. Furthermore, we have greatly improved our laptops' product design, embedded technologies as well as our production techniques. In September 2021, we unveiled the *Redmi G 2021* series high-performance gaming laptops with upgraded GPUs and screens. These laptops provide an authentic gaming experience and have garnered widespread market recognition.

¹ including *Redmi Note 11*, *Redmi Note 11 Pro* and *Redmi Note 11 Pro+*

In addition, we have expanded our premium smart home appliances categories to help our users create a healthy and comfortable living environment. In the third quarter, we launched smart home appliances including the *Xiaomi 550L Four-door Smart Refrigerator* and the *Xiaomi Mini Washing Machine*. Our smart ventilated air conditioners also performed well, leading the AC with ventilation category in terms of year-to-date cumulative sales volume on JD.com and Tmall.com for seven consecutive months between April and October 2021². During the November's Singles' Day Shopping Festival, our cumulative sales of home appliances ranked No. 3 on JD.com.

We continued to strengthen the competitiveness of our wearable products, and further enhanced interconnectivity between wearables and smartphones. According to Canalys, our global wearable bands market share ranked No. 2 in the third quarter. In September 2021, we rolled out Xiaomi's first adaptive active noise cancellation headphones, *Xiaomi Buds 3 Pro*, featuring deep 40dB noise cancellation and spatial audio. Priced at RMB699, this product affordably brings advanced technology to the mass market. Moreover, the sales volume and revenue of our smart watches grew rapidly during the third quarter. In October 2021, we rolled out the widely popular *Redmi Watch 2*, with initial sales across all channels exceeding RMB10 million within the initial two hours of sales.

We also launched new smart products with powerful connectivity to improve and integrate all aspects of users' smart living experience. For instance, we launched *Xiaomi Smart Door Lock with Face Recognition X*, *Xiaomi Hi-temperature 3-in-1 Cordless Floor Washing Vacuum Cleaner* and *Xiaomi Self-Cleaning Robot Vacuum-Mop Pro* for living room scenarios. We also introduced the *Xiaomi Crossover Range Hood Stove Set S1* for the kitchen. Going forward, we will continue to make our users' lives more convenient and enjoyable through innovative technologies.

4. Internet services

In the third quarter of 2021, revenue from our internet services segment rose to RMB7.3 billion, reaching a new quarterly high, representing an increase of 27.1% year-over-year. The gross profit margin of our internet services segment was 73.6%, 13.1 percentage points higher than the same period of last year.

Our global internet user base continued to expand in the third quarter. In September 2021, the MAU of MIUI increased 32.0% year-over-year to 485.9 million, among which the number of MAU in mainland China rose to 127.3 million, a year-over-year increase of 16.4% and a net gain for the fourth consecutive quarter. In September 2021, MAU of our global smart TV and *Xiaomi Box* expanded over 33% year-over-year. As of September 30, 2021, the number of TV paid subscribers was 4.7 million, a 13.5% increase on a year-over-year basis.

As of November 22, 2021, global MAU of MIUI³ exceeded 500 million for the first time, marking another milestone of our global expansion.

² excluding Tmall Youpin and JD appliance channel

³ global MAU of MIUI as of November 22, 2021 refers to the number of active users in the last 30 days

In the third quarter of 2021, our advertising revenue reached RMB4.8 billion, up 44.7% year-over-year, primarily due to our expanding user base, higher percentage of premium smartphone users and stronger monetization capabilities. Our gaming revenue reached RMB1.0 billion, increasing 25.0% year-over-year due to the strong performance of high-quality new games and higher gaming average revenue per user (“ARPU”) driven by premium and gaming smartphones. Our revenue from other value-added services amounted to RMB1.6 billion in the third quarter. In the second quarter of this year, our Youpin ecommerce platform rolled out its new consumer brand, Life Element, which offers a wide range of high-quality day-to-day products at competitive prices. Most recently, in November 2021, Youpin also launched its UP paying membership system to consistently improve the online shopping experience of our users.

In the third quarter of 2021, our overseas internet services revenue increased by 110.0% year-over-year to RMB1.5 billion, accounting for 19.9% of total internet services revenue, setting another quarterly record. Going forward, we will continue to expand and deepen collaborations with our global business partners and actively explore new internet service offerings in the overseas markets.

5. Overseas markets

Our revenue from overseas markets reached RMB40.9 billion during the third quarter of 2021, accounting for 52.4% of total revenue. Despite the global shortage of key components, we solidified our market position by optimizing global market resource allocation and reinforcing our channels in accordance with local market conditions. According to Canalys, our market share of smartphone shipments in the third quarter ranked No. 1 in 11 countries and regions and among the top five in 59 countries and regions globally.

We continued to deepen our global market presence in the third quarter. According to Canalys, in the third quarter of 2021, we ranked No. 2 in Europe with a smartphone market share of 21.5%. In Western Europe, our smartphone market share reached 17.0% and ranked among the top three in terms of shipments; in Central and Eastern Europe, our 28.7% smartphone shipment market share ranked No. 2. In the third quarter of 2021, we sold over 6.8 million smartphones through carrier channels in overseas markets excluding India, representing an increase of over 130% year-over-year. According to Canalys, our smartphone market share in Western Europe carrier channels increased from 4.6% in the third quarter of 2020 to 13.0% in the third quarter of 2021.

At the same time, we continued to strengthen our competitiveness in emerging markets. According to Canalys, in the third quarter of 2021, our market shares in Latin America, the Middle East and Africa reached 11.5%, 16.3% and 7.3%, respectively. In addition, we have maintained our No. 1 position in smartphone shipments in India for the 16th consecutive quarter.

6. Strategy upgrades

Smartphone × AIoT

As the world's leading consumer AIoT platform, our AIoT platform continued to expand during the quarter. As of September 30, 2021, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform exceeded the 400 million mark for the first time, an increase of 33.1% year-over-year. The number of users with five or more devices connected to our AIoT platform (excluding smartphones, tablets and laptops) exceeded 8 million, representing a year-over-year increase of 42.8%. In September 2021, the MAU of our AI Assistant (“小愛同學”) totaled 105.1 million, an increase of 34.1% year-over-year. Our Mi Home App's MAU grew to 59.9 million, representing a year-over-year increase of 39.0%.

New Retail

This year we accelerated our new retail growth efforts, further solidified our lead in online channels while rapidly expanding our offline channels. As of the date of this announcement, the total number of our retail stores in mainland China surpassed 10,000. We expect the further growth in our lower-tier market penetration will allow us to serve more users in mainland China.

Electric Vehicles

We continued to make steady progress in our smart electric vehicle business. On March 30, 2021, we announced our plan to establish a wholly-owned subsidiary to manage our smart electric vehicle business. As of the day of this announcement, we have built a capable team of over 500 people and expect to launch mass production of our smart electric vehicles in the first half of 2024.

Data Security and Privacy

We work relentlessly to foster a healthier and safer network ecosystem and safeguard the rights, interests, and information security of our users. In the third quarter, we implemented privacy and data security assessment on over 85,000 applications in our app store to identify potential privacy and data security risks, and have optimized, rectified and relaunched applications with such risks. As a mainstream mobile app store, the Xiaomi App Store will continue to cultivate a more secure, healthier application ecosystem for our users in the future.

Meanwhile, we remain committed to embedding international quality and safety standards into our smart products. In August 2021, the *Mi 360° Home Security Camera* received the British Standards Institution (BSI)'s Kitemark™ certifications, an endorsement of our strict quality control and high safety standards for smart products as well as a commendation of our tenacious pursuit of users' trust.

Corporate social responsibility (CSR)

In July and October 2021, in the wake of natural disasters caused by extreme weather conditions in Henan and Shanxi Provinces, Xiaomi Foundation Limited in Hong Kong and Xiaomi Foundation in Beijing jointly donated RMB50 million and RMB10 million to each of the flood stricken areas respectively, for aid, rescue and reconstruction. In July 2021, Xiaomi Foundation Limited in Hong Kong donated EUR1 million for disaster relief purposes to Germany, the Netherlands and Belgium, which also suffered from floods this year.

We have always valued and prioritized talent development and technological innovation. In November 2021, Xiaomi Foundation in Beijing selected a second group of 20 universities to receive the Xiaomi Scholarship. The funds from the Xiaomi Scholarship will total RMB500 million over five years and will be used to subsidize undergraduate and graduate students. The scholarship will cover 100 universities in mainland China. Xiaomi will remain committed to giving back to society and performing its duties as a responsible corporate citizen.

Xiaomi is committed to enabling everyone to enjoy equitable access to the convenience and benefits brought by innovative technology. This year, we participated in the formulation of the “Technical Requirements for Elder-friendly Smart TVs” by the China Video Industry Association. We received a letter of appreciation in July 2021 from the National Audio, Video and Multimedia System and Equipment Standardization Technical Committee, commending our contribution to elder-friendly technology research. In September 2021, the China Telecommunication Technology Laboratory of the China Academy of Information and Communications Technology awarded our *Redmi 9A* its elder-friendly certification in recognition of our high standards with respect to elder-oriented products.

Investment

As of September 30, 2021, we had invested in more than 360 companies with an aggregate book value of RMB59.1 billion, an increase of 49.8% year-over-year. In the third quarter of 2021, we recorded net income after tax of RMB0.6 billion from the disposal of investments. As of September 30, 2021, the total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on September 30, 2021 (ii) book value of our stakes in unlisted investee companies accounted for using the equity method and (iii) book value of long-term investments measured at fair value through profit or loss) totaled RMB68.5 billion. Impacted by global macro-environment as well as market sentiment towards technology sector in China in the third quarter, our long-term investments measured at fair value through profit or loss in the current period have generated unrealized financial losses, with the listed investee companies generated total losses of RMB3.5 billion, which have had a substantial impact on our net profit. We expect the value of these investments to be subject to market performance.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2021 Compared to Third Quarter of 2020

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

	Unaudited	
	Three months ended	
	September 30,	September 30,
	2021	2020
	(RMB in millions)	
Revenue	78,062.9	72,162.8
Cost of sales	(63,770.6)	(61,997.1)
Gross profit	14,292.3	10,165.7
Research and development expenses	(3,237.7)	(2,321.3)
Selling and marketing expenses	(4,882.3)	(3,600.6)
Administrative expenses	(1,274.6)	(852.7)
Fair value changes on investments measured at fair value through profit or loss	(1,975.6)	3,417.9
Share of net profits/(losses) of investments accounted for using the equity method	45.1	(10.7)
Other income	234.9	139.3
Other losses, net	(472.3)	(241.0)
Operating profit	2,729.8	6,696.6
Finance costs, net	(942.6)	(1,245.9)
Profit before income tax	1,787.2	5,450.7
Income tax expenses	(998.6)	(586.3)
Profit for the period	788.6	4,864.4
Non-IFRS measure: Adjusted Net Profit	5,175.6	4,128.3

Revenue

Revenue increased by 8.2% to RMB78.1 billion in the third quarter of 2021 on a year-over-year basis. The following table sets forth our revenue by line of business in the third quarter of 2021 and the third quarter of 2020.

	Unaudited			
	September 30, 2021		September 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	47,824.9	61.3%	47,604.1	66.0%
IoT and lifestyle products	20,935.6	26.8%	18,119.0	25.1%
Internet services	7,337.9	9.4%	5,771.9	8.0%
Others	1,964.5	2.5%	667.8	0.9%
Total revenue	<u>78,062.9</u>	<u>100.0%</u>	<u>72,162.8</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 0.5% from RMB47.6 billion in the third quarter of 2020 to RMB47.8 billion in the third quarter of 2021. Our smartphone shipment decreased 5.8% from 46.6 million in the third quarter of 2020 to 43.9 million in the third quarter of 2021, mainly due to global supply shortage of key components including SoC (system-on-chip).

The average selling price (“ASP”) of our smartphones increased by 6.7% from RMB1,022.3 per unit in the third quarter of 2020 to RMB1,090.5 per unit in the third quarter of 2021. The increase in ASP was primarily due to the increase in shipment of our premium smartphone models in the third quarter of 2021.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 15.5% from RMB18.1 billion in the third quarter of 2020 to RMB20.9 billion in the third quarter of 2021, primarily due to the popularity of *Xiaomi Pad 5 Series* which we introduced in August 2021 and the increase in sales of smart TVs and air conditioners. Revenue from smart TVs and laptops increased by 20.3% from RMB5.9 billion in the third quarter of 2020 to RMB7.1 billion in the third quarter of 2021, primarily due to our further expanded ultra-large screen TV portfolio, including *Xiaomi TV Master 77” OLED* and *Redmi MAX 86”*, and the increase in ASP of smart TVs.

Internet services

Revenue from our internet services segment increased by 27.1% from RMB5.8 billion in the third quarter of 2020 to RMB7.3 billion in the third quarter of 2021, primarily due to the growth in our advertising and gaming businesses. In the third quarter of 2021, our quarterly advertising revenue reached record high of RMB4.8 billion, representing an increase of 44.7% year-over-year, driven by pre-installation and the expansion of our global user base.

The MAU of MIUI increased 32.0% year-over-year to 485.9 million in September 2021, among which the number of MAU in mainland China rose to 127.3 million, a year-over-year increase of 16.4%.

Others

Other revenue increased by 194.2% from RMB667.8 million in the third quarter of 2020 to RMB2.0 billion in the third quarter of 2021, primarily due to the sales of office building and materials.

Cost of Sales

Our cost of sales increased by 2.9% from RMB62.0 billion in the third quarter of 2020 to RMB63.8 billion in the third quarter of 2021. The following table sets forth our cost of sales by line of business in the third quarter of 2021 and the third quarter of 2020:

	Unaudited			
	September 30, 2021		September 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	41,708.8	53.4%	43,615.1	60.4%
IoT and lifestyle products	18,509.7	23.7%	15,538.6	21.5%
Internet services	1,940.6	2.5%	2,283.3	3.2%
Others	1,611.5	2.1%	560.1	0.8%
Total cost of sales	<u>63,770.6</u>	<u>81.7%</u>	<u>61,997.1</u>	<u>85.9%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 4.4% from RMB43.6 billion in the third quarter of 2020 to RMB41.7 billion in the third quarter of 2021, primarily due to a decrease of our smartphone shipment.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 19.1% from RMB15.5 billion in the third quarter of 2020 to RMB18.5 billion in the third quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products and the increased prices of several key components.

Internet services

Cost of sales related to our internet services segment decreased by 15.0% from RMB2.3 billion in the third quarter of 2020 to RMB1.9 billion in the third quarter of 2021, primarily due to a decrease of overall consumer loan balance.

Others

Cost of sales related to our others segment increased by 187.7% from RMB560.1 million in the third quarter of 2020 to RMB1.6 billion in the third quarter of 2021, primarily due to the cost related to the sales of office building and materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 40.6% from RMB10.2 billion in the third quarter of 2020 to RMB14.3 billion in the third quarter of 2021. Our gross profit margin increased from 14.1% in the third quarter of 2020 to 18.3% in the third quarter of 2021.

The gross profit margin from our smartphones segment increased from 8.4% in the third quarter of 2020 to 12.8% in the third quarter of 2021, mainly due to an increase of 6.7% in our smartphone ASP. Moreover, average selling cost of smartphones remained stable.

The gross profit margin from our IoT and lifestyle products segment decreased from 14.2% in the third quarter of 2020 to 11.6% in the third quarter of 2021, mainly due to product mix and increased prices of several key components.

The gross profit margin from our internet services segment increased from 60.4% in the third quarter of 2020 to 73.6% in the third quarter of 2021, mainly due to higher revenue contribution of our advertising business and the increase in gross profit margin of our fintech business.

Research and Development Expenses

Our research and development expenses increased by 39.5% from RMB2.3 billion in the third quarter of 2020 to RMB3.2 billion in the third quarter of 2021, primarily due to the increase in compensation for research and development personnel and the expenses related to our research projects.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 35.6% from RMB3.6 billion in the third quarter of 2020 to RMB4.9 billion in the third quarter of 2021, primarily due to the increase in compensation for selling and marketing personnel as well as promotion and advertising expenses.

Compensation for selling and marketing personnel increased by 87.9% year-over-year to RMB832.3 million, primarily due to the increased headcount for selling and marketing. Promotion and advertising expenses increased by 22.5% year-over-year to RMB1.6 billion, primarily due to increased marketing expenses in mainland China.

Administrative Expenses

Our administrative expenses increased by 49.5% from RMB0.9 billion in the third quarter of 2020 to RMB1.3 billion in the third quarter of 2021, primarily due to the increase in compensation for administrative personnel and professional service 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 changed from a gain of RMB3.4 billion in the third quarter of 2020 to a loss of RMB2.0 billion in the third quarter of 2021, primarily due to fair value loss of listed equity investments impacted by global macro-environment as well as market sentiment towards technology sector in China in the third quarter of 2021, partially offset by fair value increased of our unlisted equity investments.

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

Our share of net profits/(losses) of investments accounted for using the equity method changed from net losses of RMB10.7 million in the third quarter of 2020 to net profits of RMB45.1 million in the third quarter of 2021, primarily due to the dilution gain from our certain investee, partially offset by share of loss of iQIYI, Inc. (Nasdaq: IQ) (“**iQIYI**”)

Other Income

Our other income increased by 68.6% from RMB139.3 million in the third quarter of 2020 to RMB234.9 million in the third quarter of 2021, primarily due to the increase of additional deduction of input value-added tax.

Other Losses, Net

Our other net losses increased by 96.0% from RMB241.0 million in the third quarter of 2020 to RMB472.3 million in the third quarter of 2021. This was mainly due to the acquisition of Zimi International Incorporation (“**Zimi**”), which was completed in the third quarter of 2021.

Finance Costs, Net

Our net finance costs decreased by 24.3% from RMB1,245.9 million in the third quarter of 2020 to RMB942.6 million in the third 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 70.3% from RMB586.3 million in the third quarter of 2020 to RMB998.6 million in the third quarter of 2021, primarily due to the increase of taxable income in the third quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB4.9 billion and a profit of RMB0.8 billion in the third quarter of 2020 and the third quarter of 2021, respectively.

Adjusted Net Profit

Our adjusted net profit increased by 25.4% from RMB4.1 billion in the third quarter of 2020 to RMB5.2 billion in the third quarter of 2021.

Third Quarter of 2021 Compared to Second Quarter of 2021

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

	Unaudited	
	Three months ended	
	September 30,	June 30,
	2021	2021
	(RMB in millions)	
Revenue	78,062.9	87,789.0
Cost of sales	(63,770.6)	(72,640.9)
Gross profit	14,292.3	15,148.1
Research and development expenses	(3,237.7)	(3,064.2)
Selling and marketing expenses	(4,882.3)	(5,680.7)
Administrative expenses	(1,274.6)	(1,150.3)
Fair value changes on investments measured at fair value through profit or loss	(1,975.6)	4,165.4
Share of net profits/(losses) of investments accounted for using the equity method	45.1	(26.2)
Other income	234.9	234.6
Other (losses)/gains, net	(472.3)	1,099.0
Operating profit	2,729.8	10,725.7
Finance costs, net	(942.6)	(1,047.2)
Profit before income tax	1,787.2	9,678.5
Income tax expenses	(998.6)	(1,415.2)
Profit for the period	788.6	8,263.3
Non-IFRS measure: Adjusted Net Profit	5,175.6	6,321.5

Revenue

Revenue decreased by 11.1% to RMB78.1 billion in the third quarter of 2021 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the third quarter of 2021 and the second quarter of 2021.

	Unaudited			
	Three months ended			
	September 30, 2021		June 30, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	47,824.9	61.3%	59,089.0	67.3%
IoT and lifestyle products	20,935.6	26.8%	20,734.7	23.6%
Internet services	7,337.9	9.4%	7,033.5	8.0%
Others	1,964.5	2.5%	931.8	1.1%
Total revenue	<u>78,062.9</u>	<u>100.0%</u>	<u>87,789.0</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 19.1% from RMB59.1 billion in the second quarter of 2021 to RMB47.8 billion in the third quarter of 2021. Our smartphone shipment decreased 17.1% from 52.9 million in the second quarter of 2021 to 43.9 million in the third quarter of 2021, mainly due to global supply shortage of key components including SoC. The ASP of our smartphones decreased by 2.3% from RMB1,116.7 per unit in the second quarter of 2021 to RMB1,090.5 per unit in the third quarter of 2021 due to product mix.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 1.0% from RMB20.7 billion in the second quarter of 2021 to RMB20.9 billion in the third quarter of 2021, primarily attributable to the popularity of *Xiaomi Pad 5 Series* which we introduced in August 2021, offset by decreased sales of certain IoT products due to challenges in maritime shipping logistics overseas this quarter. Revenue from smart TVs and laptops, increased by 18.3% from RMB6.0 billion in the second quarter of 2021 to RMB7.1 billion in the third quarter of 2021, primarily due to our further expanded premium and ultra-large screen TV portfolio, including *Xiaomi TV 6 Ultra Edition*, *Xiaomi TV ES series* and *Xiaomi TV Master 77" OLED*, and growth in demand for our smart TVs and laptops.

Internet services

Revenue from our internet services segment increased by 4.3% from RMB7.0 billion in the second quarter of 2021 to RMB7.3 billion in the third quarter of 2021, primarily due to the increase in the revenue of our advertising and gaming businesses. In the third quarter of 2021, our quarterly advertising revenue reached record high of RMB4.8 billion, representing an increase of 5.9% quarter-over-quarter, driven by pre-installation and the expansion of our global user base. Our gaming revenue reached RMB1.0 billion, increasing 8.3% quarter-over-quarter due to the strong performance of high-quality new games and higher gaming ARPU driven by premium and gaming smartphones.

Others

Other revenue increased by 110.8% from RMB931.8 million in the second quarter of 2021 to RMB2.0 billion in the third quarter of 2021, primarily due to the sales of office building and materials.

Cost of Sales

Our cost of sales decreased by 12.2% from RMB72.6 billion in the second quarter of 2021 to RMB63.8 billion in the third quarter of 2021. The following table sets forth our cost of sales by line of business in the third quarter of 2021 and the second quarter of 2021:

	Unaudited			
	September 30, 2021		June 30, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	41,708.8	53.4%	52,095.5	59.3%
IoT and lifestyle products	18,509.7	23.7%	17,992.3	20.5%
Internet services	1,940.6	2.5%	1,819.7	2.1%
Others	1,611.5	2.1%	733.4	0.8%
Total cost of sales	<u>63,770.6</u>	<u>81.7%</u>	<u>72,640.9</u>	<u>82.7%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 19.9% from RMB52.1 billion in the second quarter of 2021 to RMB41.7 billion in the third quarter of 2021, due to a decrease in our smartphone shipment.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 2.9% from RMB18.0 billion in the second quarter of 2021 to RMB18.5 billion in the third quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products, such as smart TVs, tablets and laptops.

Internet services

Cost of sales related to our internet services segment increased by 6.6% from RMB1.8 billion in the second quarter of 2021 to RMB1.9 billion in the third quarter of 2021, primarily due to an increase in cost of our advertising and gaming businesses.

Others

Cost of sales related to our others segment increased by 119.7% from RMB733.4 million in the second quarter of 2021 to RMB1.6 billion in the third quarter of 2021, primarily due to the cost related to the sales of office building and materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 5.6% from RMB15.1 billion in the second quarter of 2021 to RMB14.3 billion in the third quarter of 2021. Our gross profit margin increased from 17.3% in the second quarter of 2021 to 18.3% in the third quarter of 2021.

The gross profit margin from our smartphones segment increased from 11.8% in the second quarter of 2021 to 12.8% in the third quarter of 2021, mainly due to fewer promotional activities and the improved product mix.

The gross profit margin from our IoT and lifestyle products segment decreased from 13.2% in the second quarter of 2021 to 11.6% in the third quarter of 2021, mainly attributable to product mix.

The gross profit margin from our internet services segment decreased from 74.1% in the second quarter of 2021 to 73.6% in the third quarter of 2021, mainly due to the decrease of gross profit margin from our fintech business.

Research and Development Expenses

Our research and development expenses increased by 5.7% from RMB3.1 billion in the second quarter of 2021 to RMB3.2 billion in the third quarter of 2021, primarily due to the increase in compensation for research and development personnel and the expenses related to our research projects.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 14.1% from RMB5.7 billion in the second quarter of 2021 to RMB4.9 billion in the third quarter of 2021, primarily due to the decrease in promotion and advertising expenses.

Promotion and advertising expenses decreased by 23.9% quarter-over-quarter to RMB1.6 billion, primarily due to the enhanced promotional efforts for 618 e-Commerce Shopping Festival in mainland China in the second quarter of 2021.

Administrative Expenses

Our administrative expenses increased by 10.8% from RMB1.2 billion in the second quarter of 2021 to RMB1.3 billion in the third quarter of 2021, primarily due to the increase of professional service 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 changed from a gain of RMB4.2 billion in the second quarter of 2021 to a loss of RMB2.0 billion in the third quarter of 2021, primarily due to fair value loss of listed equity investments impacted by global macro-environment as well as market sentiment towards technology sector in China in the third quarter of 2021, partially offset by fair value increased of our unlisted equity investments.

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

Our share of net profits/(losses) of investments accounted for using the equity method changed from net losses of RMB26.2 million in the second quarter of 2021 to net profits of RMB45.1 million in the third quarter of 2021, primarily due to the dilution gain from our certain investee, partially offset by share of loss of iQIYI.

Other Income

Our other income increased by 0.1% from RMB234.6 million in the second quarter of 2021 to RMB234.9 million in the third quarter of 2021.

Other (Losses)/Gains, Net

Our other net (losses)/gains changed from net gains of RMB1,099.0 million in the second quarter of 2021 to net losses of RMB472.3 million in the third quarter of 2021. This is mainly due to the gains on disposal from an investee company in the second quarter of 2021.

Finance Costs, Net

Our net finance costs decreased by 10.0% from RMB1,047.2 million in the second quarter of 2021 to RMB942.6 million in the third 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 decreased by 29.4% from RMB1,415.2 million in the second quarter of 2021 to RMB998.6 million in the third quarter of 2021, primarily due to the decrease of taxable income in the third quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB8.3 billion and a profit of RMB0.8 billion in the second and third quarter of 2021, respectively.

Adjusted Net Profit

We had an adjusted net profit of RMB6.3 billion and RMB5.2 billion in the second quarter of 2021 and the third 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 operation, 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 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 third quarter of 2021, the second quarter of 2021, the third quarter of 2020, and the first nine months of 2021 and 2020, respectively, to the nearest measures prepared in accordance with IFRS.

	Unaudited Three Months Ended September 30, 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 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 June 30, 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 period	8,263,308	622,808	(3,835,561)	79	1,201,012	69,857	6,321,503
Net margin	9.4%						7.2%

	Unaudited Three Months Ended September 30, 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 period	4,864,348	579,192	(2,557,510)	79	1,352,516	(110,362)	4,128,263
Net margin	6.7%						5.7%

Unaudited
Nine 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	16,840,732	1,586,974	(2,407,033)	33,270	1,443,400	69,016	17,566,359
Net margin	6.9%						7.2%

Unaudited
Nine Months Ended September 30, 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	11,517,715	1,667,695	(5,079,388)	237	2,027,893	(332,180)	9,801,972
Net margin	6.6%						5.6%

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 profits/(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.

Liquidity and Financial Resources

On December 4, 2020, the Company completed a top-up placing of a total of 1,000,000,000 placing shares at HK\$23.70 to not less than six placees who and whose ultimate beneficial owner(s) are independent third parties (the “**2020 Placing and Subscription**”). For further details, please refer to the Company’s announcements dated December 2, 2020, December 3, 2020 and December 9, 2020.

During the nine months ended September 30, 2021, other than the funds raised through the issuance of debt securities as set out below, we funded our cash requirements principally from cash generated from our operations, bank borrowings. We had cash and cash equivalents of RMB32.6 billion and RMB31.9 billion as of September 30, 2021 and June 30, 2021, respectively.

Note:

The cash resources which the Group considered in cash management include but are not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss, short-term investments measured at amortized cost and long-term bank deposits. As of September 30, 2021, the aggregate amount of cash resources of the Group was RMB98.1 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	
	September 30,	June 30,
	2021	2021
	(in millions of RMB)	
Net cash (used in)/generated from operating activities ⁽¹⁾	(10,230.7)	6,830.3
Net cash generated from/(used in) investing activities	7,050.9	(6,440.7)
Net cash generated from/(used in)/financing activities ⁽¹⁾	3,978.6	(2,513.5)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	798.8	(2,123.9)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of period	31,881.0	34,279.5
Effects of exchange rate changes on cash and cash equivalents	(30.3)	(274.6)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	32,649.5	31,881.0
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments related to the finance factoring business; (3) the change of restricted cash resulting from the fintech business, and (4) the change of deposits from customers resulting from the Airstar Bank, the net cash used in operating activities was RMB12.9 billion in the third quarter of 2021 and the net cash generated from operating activities was RMB8.4 billion in the second quarter of 2021, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB4.6 billion in the third quarter of 2021 and the net cash used in financing activities was RMB0.5 billion in the second 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 Used In Operating Activities

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

In the third quarter of 2021, net cash used in our operating activities amounted to RMB10.2 billion, representing cash used in operations of RMB9.4 billion plus income tax paid of RMB0.8 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB1.8 billion, adjusted by a decrease in trade payables of RMB18.5 billion, partially offset by fair value losses on investment measured at fair value through profits and loss of RMB2.0 billion, an increase in other payable and accruals of RMB2.8 billion, and a decrease in loan and loan receivables of RMB1.4 billion.

Net Cash Generated From Investing Activities

In the third quarter of 2021, our net cash generated from investing activities was RMB7.1 billion, which was primarily attributed to the net decrease of short-term investments measured at fair value through profit or loss of RMB8.0 billion and the net decrease of short-term bank deposits of RMB7.4 billion, partially offset by the purchase of long-term investments measured at fair value through profit or loss of RMB5.5 billion and the capital expenditures of RMB3.3 billion.

Net Cash Generated From Financing Activities

For the third quarter of 2021, our net cash generated from financing activities was RMB4.0 billion, which was primarily attributed to the net increase of borrowings of RMB6.6 billion, partially offset by our share repurchases of RMB2.3 billion.

Borrowings

As of June 30, 2021 and September 30, 2021, we had total borrowings of RMB19.3 billion and RMB25.9 billion, respectively.

Capital Expenditure

	Unaudited	
	Three months ended	
	September 30, 2021	June 30, 2021
	(in millions of RMB)	
Capital expenditures	3,330.1	697.8
Placement of long-term investments ⁽¹⁾	5,534.5	2,833.7
Total	<u>8,864.6</u>	<u>3,531.5</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 September 30, 2021, except for financial guarantee contracts, we had not entered into any significant off-balance sheet commitments or arrangements.

Future Plans for Material Investments and Capital Assets

As of September 30, 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 September 30, 2021) during the nine months ended September 30, 2021.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

On July 5, 2021, the transaction that the Company entered into a share purchase agreement with shareholders 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 that the Company entered into the share purchase agreement with the relevant parties 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 third quarter of 2021, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As of September 30, 2021, we had 31,366 full-time employees, 29,043 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 global markets. As of September 30, 2021, our research and development personnel, totaling 13,919 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our strategy, we offer employees competitive compensation packages. As of September 30, 2021, 14,089 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, in the third quarter of 2021 were RMB3.4 billion, representing a decrease of 4.0% from the second quarter of 2021 of RMB3.6 billion.

Foreign Exchange Risk

The transactions of our Company are denominated and settled in our functional currency, the United States dollar. Our Group's subsidiaries primarily operate in the People's Republic of China and other regions such as India, and are exposed to foreign exchange risk arising from 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 September 30, 2021, we pledged a restricted deposit of RMB2,563.7 million, compared with RMB2,312.7 million as of June 30, 2021. We also had pledged certain buildings, construction in progress and land use right for borrowings.

Contingent Liabilities

We did not have any material contingent liabilities as of September 30, 2021 and June 30, 2021.

FINANCIAL INFORMATION
CONDENSED CONSOLIDATED INCOME STATEMENTS
For the three months and nine months ended September 30, 2021
(Expressed in Renminbi (“RMB”))

	Note	Unaudited Three months ended September 30,		Unaudited Nine months ended September 30,	
		2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue	2	78,062,855	72,162,777	242,733,978	175,402,749
Cost of sales	2, 3	(63,770,634)	(61,997,121)	(199,132,484)	(149,977,190)
Gross profit		14,292,221	10,165,656	43,601,494	25,425,559
Research and development expenses	3	(3,237,695)	(2,321,264)	(9,313,862)	(6,150,520)
Selling and marketing expenses	3	(4,882,314)	(3,600,582)	(14,726,448)	(9,449,131)
Administrative expenses	3	(1,274,603)	(852,715)	(3,412,591)	(2,470,674)
Fair value changes on investments measured at fair value through profit or loss	4	(1,975,634)	3,417,924	4,252,992	6,131,958
Share of net profits/(losses) of investments accounted for using the equity method		45,116	(10,696)	27,912	1,012,687
Other income		234,886	139,291	621,551	396,069
Other (losses)/gains, net		(472,296)	(240,995)	562,052	(463,114)
Operating profit		2,729,681	6,696,619	21,613,100	14,432,834
Finance income		317,991	219,690	915,850	733,430
Finance costs		(1,260,559)	(1,465,628)	(1,996,415)	(2,393,698)
Profit before income tax		1,787,113	5,450,681	20,532,535	12,772,566
Income tax expenses		(998,596)	(586,333)	(3,691,803)	(1,254,851)
Profit for the period		788,517	4,864,348	16,840,732	11,517,715
Attributable to:					
— Owners of the Company		792,256	4,880,596	16,853,622	11,542,239
— Non-controlling interests		(3,739)	(16,248)	(12,890)	(24,524)
		788,517	4,864,348	16,840,732	11,517,715
Earnings per share (expressed in RMB per share):					
Basic		0.03	0.20	0.67	0.48
Diluted		0.03	0.20	0.66	0.47

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months and nine months ended September 30, 2021

(Expressed in RMB)

Note	Unaudited Three months ended September 30,		Unaudited Nine months ended September 30,	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Profit for the period	788,517	4,864,348	16,840,732	11,517,715
Other comprehensive income/(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	(18,034)	(44,809)	(72,585)	(27,826)
Transfer of share of other comprehensive loss 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	(421)	(5,925)	(2,567)	(3,824)
Currency translation differences	24,161	(44,066)	(140,898)	(7,943)
<i>Item that will not be reclassified subsequently to profit or loss</i>				
Currency translation differences	173,193	(1,223,904)	(310,431)	(784,348)
Other comprehensive income/(loss) for the period, net of tax	178,899	(1,318,704)	(526,481)	(828,714)
Total comprehensive income for the period	967,416	3,545,644	16,314,251	10,689,001
Attributable to:				
— Owners of the Company	970,340	3,561,639	16,329,297	10,707,497
— Non-controlling interests	(2,924)	(15,995)	(15,046)	(18,496)
	967,416	3,545,644	16,314,251	10,689,001

CONDENSED CONSOLIDATED BALANCE SHEET

As of September 30, 2021

(Expressed in RMB)

		Unaudited As of September 30, 2021 RMB'000	Audited As of December 31, 2020 RMB'000
Assets			
Non-current assets			
Property and equipment		7,135,251	6,305,657
Intangible assets		5,825,484	4,265,619
Investments accounted for using the equity method		13,173,839	12,781,995
Long-term investments measured at fair value through profit or loss	4	45,945,602	35,215,319
Deferred income tax assets		1,148,245	2,011,072
Long-term bank deposits		14,324,895	9,608,677
Long-term investments measured at amortized cost	4	342,203	232,798
Other non-current assets		11,214,387	6,975,851
		<u>99,109,906</u>	<u>77,396,988</u>
Current assets			
Inventories	6	58,181,844	41,670,719
Trade receivables	5	14,107,616	10,161,019
Loan receivables		7,181,845	8,919,088
Prepayments and other receivables		24,988,516	16,181,520
Bills receivables measured at fair value through other comprehensive income		343,876	200,000
Short-term investments measured at fair value through other comprehensive income	4	680,743	797,456
Short-term investments measured at amortized cost	4	2,598,211	—
Short-term investments measured at fair value through profit or loss	4	19,592,715	22,376,387
Short-term bank deposits		26,362,188	17,598,946
Restricted cash		2,563,740	3,625,257
Cash and cash equivalents		32,649,502	54,752,443
		<u>189,250,796</u>	<u>176,282,835</u>
Total assets		<u><u>288,360,702</u></u>	<u><u>253,679,823</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

As of September 30, 2021

(Expressed in RMB)

	Note	Unaudited As of September 30, 2021 RMB'000	Audited As of December 31, 2020 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		408	409
Reserves		<u>135,497,151</u>	<u>123,691,287</u>
		<u>135,497,559</u>	<u>123,691,696</u>
Non-controlling interests		<u>266,485</u>	<u>321,819</u>
Total equity		<u><u>135,764,044</u></u>	<u><u>124,013,515</u></u>
Liabilities			
Non-current liabilities			
Borrowings	7	21,006,592	10,634,806
Deferred income tax liabilities		582,536	300,556
Warranty provision		951,442	802,590
Other non-current liabilities		<u>15,531,126</u>	<u>10,001,428</u>
		<u>38,071,696</u>	<u>21,739,380</u>
Current liabilities			
Trade payables	8	73,355,847	72,198,856
Other payables and accruals		19,571,957	13,619,655
Advance from customers		11,605,966	11,999,086
Borrowings	7	4,891,758	6,961,937
Income tax liabilities		1,607,815	674,298
Warranty provision		<u>3,491,619</u>	<u>2,473,096</u>
		<u>114,524,962</u>	<u>107,926,928</u>
Total liabilities		<u><u>152,596,658</u></u>	<u><u>129,666,308</u></u>
Total equity and liabilities		<u><u>288,360,702</u></u>	<u><u>253,679,823</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2021

(Expressed in RMB)

	Unaudited	
	Nine months ended	
	September 30,	
	2021	2020
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(1,946,374)	8,350,998
Net cash used in investing activities	(24,936,419)	(7,173,063)
Net cash generated from financing activities	<u>5,048,736</u>	<u>3,839,898</u>
Net (decrease)/increase in cash and cash equivalents	(21,834,057)	5,017,833
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	<u>(268,884)</u>	<u>(679,982)</u>
Cash and cash equivalents at end of the period	<u>32,649,502</u>	<u>30,257,712</u>

1 Basis of preparation

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

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

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

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020, as described in the 2020 Financial Statements, except for the adoption of certain amended standards which has had no significant impact on the results and the financial position of the Group.

2 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. There were no material inter-segment sales during the three months and nine months ended September 30, 2021 and 2020. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2020		2021		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Mainland China	37,161,472	47.6	32,393,887	44.9	120,785,227	49.8	86,773,126	49.5
Rest of the world	40,901,383	52.4	39,768,890	55.1	121,948,751	50.2	88,629,623	50.5
	<u>78,062,855</u>		<u>72,162,777</u>		<u>242,733,978</u>		<u>175,402,749</u>	

Note:

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

3 Expenses by nature

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)		(Unaudited)	
Cost of inventories sold and royalty fees	58,949,602	57,323,360	186,498,016	137,181,551
Provision for impairment of inventories	555,130	1,021,402	1,494,009	2,528,191
Employee benefit expenses	3,429,304	2,470,659	10,384,994	6,852,363
Depreciation of property and equipment, right-of-use assets and investment properties	469,752	270,577	1,261,105	751,129
Amortization of intangible assets	330,434	123,135	924,451	367,619
Promotion and advertising expenses	1,586,610	1,295,182	4,805,220	3,215,560
Content fees to game developers and video providers	730,922	571,052	2,103,408	1,815,080
Credit loss allowance for loan receivables	(4,904)	415,978	61,558	1,599,295
Consultancy and professional service fees	382,551	224,209	970,238	643,029
Cloud service, bandwidth and server custody fees	484,883	549,610	1,529,219	1,467,712
Warranty expenses	1,045,624	1,063,454	3,443,561	2,385,742

4 Investments

	As of September 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Current assets		
Short-term investments measured at		
— Amortized cost	2,598,211	—
— Fair value through other comprehensive income	680,743	797,456
— Fair value through profit or loss	19,592,715	22,376,387
	<u>22,871,669</u>	<u>23,173,843</u>
Non-current assets		
Long-term investments measured at amortized cost	342,203	232,798
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments	17,544,467	13,969,457
— Preferred shares investments	26,120,077	20,913,568
— Other investments	2,281,058	332,294
	<u>46,287,805</u>	<u>35,448,117</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Fair value changes on ordinary shares investments	(3,426,106)	2,978,297	1,012,982	5,142,793
Fair value changes on preferred shares investments	1,290,394	274,789	2,707,853	548,497
Fair value changes on short-term investments measured at fair value through profit or loss	160,203	164,838	527,041	439,769
Fair value change on other investments	(125)	—	5,116	899
	<u>(1,975,634)</u>	<u>3,417,924</u>	<u>4,252,992</u>	<u>6,131,958</u>

5 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 September 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Trade receivables		
Up to 3 months	12,271,932	9,400,187
3 to 6 months	1,247,658	534,660
6 months to 1 year	505,736	234,844
1 to 2 years	177,088	110,291
Over 2 years	<u>60,540</u>	<u>81,797</u>
	14,262,954	10,361,779
Less: credit loss allowance	<u>(155,338)</u>	<u>(200,760)</u>
	<u>14,107,616</u>	<u>10,161,019</u>

6 Inventories

	As of September 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Raw materials	27,065,759	15,684,698
Finished goods	21,298,760	17,909,963
Work in progress	4,331,765	4,135,024
Spare parts	3,095,818	1,967,593
Others	<u>3,439,004</u>	<u>3,199,153</u>
	59,231,106	42,896,431
Less: provision for impairment	<u>(1,049,262)</u>	<u>(1,225,712)</u>
	<u>58,181,844</u>	<u>41,670,719</u>

7 Borrowings

	As of September 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities	—	465,000
Secured borrowings	1,590,627	1,594,936
Unsecured borrowings	15,254,598	4,530,856
Convertible bonds	4,161,367	4,044,014
	<u>21,006,592</u>	<u>10,634,806</u>
Included in current liabilities		
Asset-backed securities	278,438	3,589,629
Fund raised through trusts	32,431	547,500
Secured borrowings	507,217	460,257
Unsecured borrowings	4,073,672	2,364,551
	<u>4,891,758</u>	<u>6,961,937</u>

8 Trade payables

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

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

	As of September 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Up to 3 months	64,635,544	68,909,758
3 to 6 months	6,537,360	2,312,665
6 months to 1 year	1,905,724	873,537
1 to 2 years	175,807	34,200
Over 2 years	101,412	68,696
	<u>73,355,847</u>	<u>72,198,856</u>

9 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 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 (Unaudited)
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	<u>1,317,460</u>
	<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
Other assets	606,152
Deferred income tax liabilities	(252,303)
Trade payables	(481,260)
Other payables and accruals	<u>(48,513)</u>
Total identifiable net assets:	1,396,196
Goodwill	<u>1,382,143</u>
	<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.

(b) *Deepmotion acquisition*

On September 22, 2021, the Company completed the acquisition of Deepmotion at a total consideration of approximately US\$77.37 million (approximately RMB500,555,000), among which 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, and all such amount is attributable to post-combination services.

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 (Unaudited)
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
Other assets	6,359
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>

OTHER INFORMATION

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

During the nine months ended September 30, 2021 and up to the date of this announcement, the Company repurchased a total of 323,304,000 Class B Shares (the “**Shares Repurchased**”) of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at an aggregate consideration of HK\$8,040,563,351. Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased	Price paid per share		Aggregate Consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
March	19,307,600	26.20	25.50	498,900,661
April	173,381,600	27.20	24.60	4,494,026,504
July	15,250,000	26.40	25.20	393,626,650
August	16,150,000	24.90	24.20	396,677,775
September	85,229,400	25.00	21.25	1,965,668,178
October	13,985,400	21.25	20.40	291,663,583
Total	<u>323,304,000</u>			<u>8,040,563,351</u>

As at the date of this announcement, the number of Class B Shares in issue was reduced by 323,304,000 shares 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 Rule 8A.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under Rules 8A.13 and 8A.15 of the Listing Rules.

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

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 nine months ended September 30, 2021 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 A.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 during the nine months ended September 30, 2021.

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

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

Material Litigation

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

Use of Net Proceeds

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

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

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

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

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

The net proceeds received by the Company from the 2031 Bonds and Green Bonds were approximately US\$789.0 million and US\$392.8 million respectively. The Company intends to use the estimated net proceeds from 2031 Bonds for general corporate purposes, and use the estimated net proceeds from Green Bonds 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. The Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within about 30 years.

Events after September 30, 2021

Save as disclosed in this announcement, there has been no other significant events that might affect the Group after September 30, 2021 and up to the date of this announcement.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, November 23, 2021

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.