

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 MONTHS ENDED MARCH 31, 2022

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 months ended March 31, 2022. 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

	March 31,	March 31,	Unaudited	December 31,	Quarter-on-quarter
	2022	2021	Three months ended	2021	change
			Year-on-year		
			change		
Revenue	73,351.5	76,882.2	-4.6%	85,575.2	-14.3%
Gross profit	12,709.7	14,161.3	-10.2%	14,659.5	-13.3%
Operating (loss)/profit	(911.4)	8,157.7	N/A	4,415.6	N/A
(Loss)/profit before income tax	(416.1)	9,066.9	N/A	3,884.5	N/A
(Loss)/profit for the period	(530.7)	7,788.9	N/A	2,442.5	N/A
Non-IFRS measure:					
Adjusted Net Profit	2,858.6	6,069.3	-52.9%	4,473.1	-36.1%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

In the first quarter of 2022, despite the impact of the continued supply shortage of key components, the resurgence of COVID-19, and global macroeconomic headwinds, we continued to advance our business strategies while strengthening our foundation. Our first quarter total revenue reached RMB73.4 billion. We continue to execute our core “Smartphone × AIoT” strategy, with our IoT and lifestyle products business and internet services business maintaining solid growth momentum in the first quarter of 2022. At the same time, we have been actively developing our smart Electric Vehicle (“EV”) and other new initiatives. Our adjusted net profit reached RMB2.9 billion in the first quarter of 2022, which included RMB425 million of expenses related to smart EV and other new initiatives.

In the first quarter of 2022, we maintained our No. 3 global smartphone ranking with a market share of 12.6%, according to Canalys. At the same time, our global smartphone user base continued to grow. In March 2022, our global MAU of MIUI reached 529.1 million, an increase of 103.8 million year-over-year, and MAU of MIUI in mainland China reached 135.6 million, an increase of 17.0 million year-over-year, both achieving historical highs. As of March 31, 2022, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 478.1 million, an increase of 36.2% year-over-year.

Technology advancement remains the bedrock of our business, and we continued to ramp up our investment in research and development. In the first quarter of 2022, research and development expenses reached RMB3.5 billion, an increase of 16.0% year-over-year, reflecting our relentless pursuit of technology, product quality and innovation. According to China Unicom’s latest “2021 Annual End User Device Evaluation Report” published in April 2022, our *Xiaomi MIX FOLD* and *Redmi Note 11* each ranked first in their corresponding price segments in the smartphone quality assessment. In addition, in China Mobile’s “5G Communication Index Report (Fifth Edition)” released in January 2022, *Xiaomi MIX 4*, *Xiaomi Civi*, *Xiaomi 11 Lite 5G NE* and *Redmi Note 11 Pro* all ranked top three in their corresponding price segments in the 5G communication capability assessment. In the “2021 China Telecom End User Device Insight Report” published in November 2021, our smartphones also ranked first across all price segments in the 5G smartphone performance assessment, including *Xiaomi 11 Pro*, *Redmi K40 Pro*, *Redmi K40* and *Redmi Note 9*. As we continue to explore technology breakthroughs and enrich our talent pool, we have accumulated a broad portfolio of intellectual property. As of March 31, 2022, we had over 26,000 granted patents and over 53,000 patent applications globally. We continue to push the latest innovations in imaging and charging technologies. As of March 31, 2022, we had more than 980 granted patents and more than 2,400 patent applications globally related to imaging technology. In relation to charging technology, we had over 1,550 patent applications globally, including over 390 patent applications related to wired fast-charging technology.

We remain focused on executing our smartphone premiumization strategy and strive to offer the best products, services and experience to our users globally. The global average selling price (“ASP”) of our smartphones grew 14.1% year-over-year to RMB1,189 in the first quarter of 2022. During this quarter, global shipments of our smartphones with retail prices at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets reached nearly 4 million units. Furthermore, we have been reinforcing our premium smartphone market position in mainland China. According to third-party data, in the first quarter of 2022, our market share ranked No. 1 among Android smartphone vendors for smartphones with retail prices between RMB4,000 and RMB6,000 in mainland China.

We continued to strengthen our global operations and advance our overseas strategy, which allows us to benefit from higher growth in overseas markets while mitigating volatility and risks associated with any single market. In the first quarter of 2022, our revenue from overseas markets amounted to RMB37.5 billion, accounting for 51.1% of total revenue. During this quarter, we continued to perform well in key regions globally. According to Canalys, our market share of smartphone shipments in the first quarter of 2022 ranked top three in 49 countries and regions and among the top five in 68 countries and regions.

2. Smartphones

In the first quarter of 2022, the continued supply shortage of key components, resurgence of COVID-19, and global macroeconomic headwinds affected the demand and supply of the overall smartphone market. According to Canalys, in the first quarter of 2022, overall smartphone shipments decreased 10.5% year-over-year globally. In this quarter, our smartphone revenue reached RMB45.8 billion, and our global smartphone shipments amounted to 38.5 million units. Our global smartphone ASP reached RMB1,189, an increase of 14.1% year-over-year. According to Canalys, in the first quarter of 2022, we maintained our No. 3 ranking in terms of global smartphone shipments with market share of 12.6%.

According to Canalys, overall smartphone shipments in mainland China decreased 18.2% year-over-year in the first quarter of 2022, and our smartphone shipments ranked No. 5 with market share of 13.9%. We continued to reinforce our leadership in the online channel, where our smartphone shipments maintained our No. 1 ranking with market share of 32.3% in mainland China, according to third-party data. This year, while maintaining our online leadership and continuing to expand our offline coverage, we are also focusing on improving offline store efficiency. Recently, the resurgence of COVID-19 has softened overall consumption demand, affecting the normal operations and foot traffic of many of our stores. Despite this, the offline channel has made great contribution to the sales of our premium smartphones. In the first quarter of 2022, the offline channel accounted for over 50% of our premium smartphone shipments in mainland China, according to third-party data.

We remain committed to executing our dual-brand strategy. Under the Xiaomi brand, we unveiled *Xiaomi Civi 1S* in April 2022, featuring an aesthetic, thin and lightweight design and smooth user experience to appeal to the fashion-conscious demographic. The *Xiaomi Civi 1S* is equipped with advanced beautification and virtual makeup features and eye-tracking algorithm to bring consumers the ultimate photo-imaging experience. In March 2022, our *Xiaomi 12* series¹ officially launched in global markets with retail prices starting at USD649 for *Xiaomi 12X* and USD999 for *Xiaomi 12 Pro*. We also held exclusive launch events and released promotional videos at the Eiffel Tower in Paris, the Fondazione Zeffirelli Museum in Florence, the Hofburg Palace in Vienna, and Palm Islands in Dubai to establish *Xiaomi 12* series' premium image overseas. Under the Redmi brand, the popularity of *Redmi K50* and *Redmi K50 Pro* has grown since their launch in March 2022 due to their excellent performance and compelling user experience. Furthermore, *Redmi K50G* and *Redmi K50G Mercedes-AMG Petronas Formula One Team Edition*, launched in February 2022, have received overwhelmingly positive reviews among gamers due to their fast performance and superior competitive gaming experience. Cumulative sales of *Redmi K50* series² have already exceeded one million units.

As we optimize our smartphone portfolio, we expect to further expand our target user base. For example, over 50% of users of the *Xiaomi 12* series, *Redmi K50* and *Redmi K50 Pro* are new users of our smartphones³. Moreover, our most recently launched *Xiaomi Civi 1S* has also attracted over 50% new users.

3. IoT and lifestyle products

While macroeconomic headwinds, the COVID-19 pandemic and overseas maritime shipping logistics had affected certain product categories, our IoT and lifestyle products business still achieved robust growth, primarily due to our diverse product portfolio and strong market position. In the first quarter of 2022, revenue from IoT and lifestyle products reached RMB19.5 billion, an increase of 6.8% year-over-year. We remain focused on improving our profitability. In this quarter, gross profit margin of IoT and lifestyle products reached 15.6%, a quarterly high.

In the first quarter of 2022, despite year-over-year declines in the overall TV market both globally and in mainland China, we again achieved growth against the industry trend. Global shipments of our smart TV reached 3.0 million units, an increase of over 15% year-over-year. According to All View Cloud (“AVC”), our TV shipments ranked No. 1 in mainland China for the 13th consecutive quarter with our market share climbing further to 22.3%. Globally, we maintained our top five ranking. In addition, benefitting from economies of scale and lower cost of key components, the gross margin of our smart TV business improved both sequentially and year-over-year in the first quarter.

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

² *Redmi K50*, *Redmi K50 Pro*, *Redmi K50G* and *Redmi K50G Mercedes-AMG Petronas Formula One Team Edition*

³ New user is defined as first-time Xiaomi user or returning user after a period longer than 30 days, based on internal data since June 1, 2018 and from product sales launch to May 15, 2022

We have maintained healthy growth momentum in key AIoT categories such as tablets, smart large home appliances, and TWS earbuds. Our *Xiaomi Pad 5* series continued to gain traction with steady increases in both shipments and market share. According to Canalys, our tablet shipments ranked No. 3 in mainland China in the first quarter of 2022, and *Xiaomi Pad 5* series has become one of our top revenue-generating IoT categories since its launch in August 2021. Our smart large home appliance category, comprising air conditioners, refrigerators and washing machines, continued to deliver strong growth with revenue increasing more than 25% year-over-year in the first quarter of 2022. At the same time, we continued to maintain our global leading position in wearable products. According to Canalys, our TWS earbud shipments ranked No. 3 globally and No. 2 in mainland China in the first quarter of 2022.

4. Internet services

Our internet services business maintained solid growth in the first quarter of 2022, driven by the continued expansion of our internet user base, our diversified revenue streams and rapid growth of our overseas internet business. Despite the challenges brought by volatility in our smartphone shipments and changes in the regulatory environment in the advertising and gaming industries in mainland China, our internet services revenue reached RMB7.1 billion, an increase of 8.2% year-over-year, and our advertising and gaming businesses both realized year-over-year growth.

Our global and mainland China internet user base continued to grow in the first quarter. In March 2022, global MAU of MIUI increased by 103.8 million year-over-year to reach 529.1 million, and MAU of MIUI in mainland China grew by 17.0 million year-over-year to reach 135.6 million. In the first quarter of 2022, we added 20.3 million MAU of MIUI globally, including 5.8 million MAU in mainland China. MAU of MIUI in mainland China has increased for six consecutive quarters, laying a solid foundation for the development of our internet business in the future.

In the first quarter of 2022, our advertising revenue reached RMB4.5 billion, an increase of 16.2% year-over-year, primarily attributable to the growth of our search revenue and performance and brand advertising revenue. In the first quarter, although the gaming industry continued to face challenges under the regulatory environment, our gaming revenue reached RMB1.1 billion, up 3.0% year-over-year.

Our overseas internet business maintained its robust growth trajectory. In the first quarter of 2022, overseas internet services revenue reached RMB1.6 billion, an increase of 71.1% year-over-year. Contribution of overseas internet services revenue to total internet services revenue continued to grow and reached 21.9%, a quarterly high.

In the first quarter of 2022, our TV internet user base also maintained its solid growth. In March 2022, MAU of our smart TV⁴ exceeded 50 million for the first time. As of March 31, 2022, the number of our TV paid subscribers reached 5.5 million. In the first quarter of 2022, our mainland China TV internet revenue accounted for approximately 15% of mainland China internet services revenue. With regards to TV value-added services, since launching our platform strategy in 2020, we have continued to expand our content resources to provide users with rich content offerings including sports, kids and family programming, which drove TV value-added services revenue to a quarterly high. Meanwhile, benefiting from luxury goods and high-end automobile brand advertising, our TV advertising revenue also achieved a record high in this quarter.

5. Overseas markets

We continued to develop our business operations in major overseas markets. In the first quarter of 2022, revenue from overseas markets reached RMB37.5 billion and accounted for 51.1% of our total revenue. According to Canalys, in the first quarter of 2022, our market share of smartphone shipments ranked top three in 49 countries and regions and among the top five in 68 countries and regions globally.

We continued to strengthen our presence in overseas markets. According to Canalys, our smartphone shipments in Europe continued to rank No. 3 in the first quarter of 2022 with 19.7% market share. In Western Europe, we ranked No. 3 with market share of 15.4%. Within Western Europe, we ranked No. 2 in Spain and Italy and No. 3 in France and Germany, and we ranked No. 4 in the United Kingdom for the first time. According to Canalys, our smartphone shipments in the Middle East also ranked No. 3 with 12.5% market share in the first quarter of 2022. Meanwhile, we maintained our position in emerging markets. In Southeast Asia, Latin America and Africa, our smartphone market share reached 15.2%, 13.9% and 6.3% respectively, and all ranked No. 3. In addition, our smartphone shipments ranked No. 1 in India for the 18th consecutive quarter.

We continued to penetrate the overseas carrier channel. According to Canalys, our carrier channel market share in Europe increased from 16.8% in 2021 to 17.0% in the first quarter of 2022, and our carrier channel market share in Latin America increased from 12.3% to 17.7% during the same period. In the first quarter of 2022, we shipped more than 5.7 million smartphones through carrier channels in overseas markets⁵, an increase of more than 10% year-over-year. According to Canalys, our smartphone market share through carrier channels ranked top three in 38 overseas markets.

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

⁵ excluding India, Sri Lanka, Nepal and Bangladesh

6. Strategy updates

Smartphone × AIoT

We remain focused on executing our “Smartphone × AIoT” strategy. As of March 31, 2022, the number of connected devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 478.1 million, an increase of 36.2% year-over-year; the number of users with five or more devices connected to our AIoT platform (excluding smartphones, tablets and laptops) reached 9.5 million, representing a year-over-year increase of 38.7%. In March 2022, the MAU of our AI Assistant (“小愛同學”) reached 115.3 million, up 23.9% year-over-year, and the MAU of our Mi Home App grew to 65.8 million, an increase of 33.8% year-over-year.

New retail

We continue to hold our leading position in the online channel. According to third-party data, our online smartphone shipment market share in mainland China reached 32.3% in the first quarter of 2022, ranking No. 1. At the same time, we continued to expand our offline channel coverage in mainland China. As of March 31, 2022, the number of our offline retail stores in mainland China grew to over 10,500. This year, our priority is to improve store efficiency through deeper collaboration with carriers, integration of in-store sales and services, training of store staff, optimization of product mix and cross-selling IoT products.

We are using instant delivery services to enhance the consumer experience and extend our user reach, while also broadening our sales channels and improving store efficiency. In October 2021, we launched our pilot partnership program with Meituan Instashopping, in which users can search for “Mi Home” in the Meituan or Meituan Waimai app and receive on-demand delivery service in as short as 30 minutes. As of March 2022, there are more than 3,000 Mi Homes on the Meituan platform, covering 276 cities including Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu. Meituan Instashopping is available for many of our product categories, including smartphones, smart wearables, smart home, personal care and more.

Recently, the resurgence of COVID-19 in mainland China has softened overall consumption demand and affected the operating schedules and foot traffic of many of our offline retail stores. We are actively responding to these challenges and prudently managing our operations to minimize the impact. The short-term volatility will not change the long-term direction of our new retail strategy.

Corporate social responsibility (CSR)

We have fully incorporated environmental, social and governance into our business operations and management, and we actively promote sustainable corporate development. In April 2022, we published our 2021 ESG Report and set multiple environmental goals based on our operations. In terms of energy, we aim to reduce per capita energy consumption in our self-operated office parks by 5% in 2026 compared to 2020. In terms of greenhouse gas emissions, we target to reduce per capita greenhouse gas emissions in our self-operated office parks by 4.5% in 2026 compared to 2020. In terms of water resources, our goal is to not exceed the 2020 per capita water consumption level in our self-operated office parks. With regards to waste management, we aim to categorize non-hazardous waste from our self-operated office parks and safely dispose 100% of hazardous waste through qualified third-party organizations. Furthermore, our greenhouse gas emissions data has been verified by reputable international authorities. In April 2022, the British Standards Institution (BSI) issued a verification statement on Xiaomi Corporation's 2021 greenhouse gas emissions data.

We are committed to empowering social services with technology globally and have made remarkable achievements in early disaster warnings. In 2021, our earthquake early warning system covered most areas of the 25 provincial administrative regions in mainland China. We also introduced this system to overseas markets. In March 2022, we officially launched the trial operation of our Earthquake Early Warning smartphone function in Indonesia to provide users precious time to seek refuge.

We have been deepening our involvement with public welfare initiatives in mainland China. With respect to nurturing talent, in January 2022, Xiaomi Foundation Limited in Hong Kong set up the Xiaomi Sports Scholarship with the All-China Sports Foundation to jointly facilitate the all-round development of teenage athletes, with total donation of RMB10 million expected over the next five years. In April 2022, to promote cutting-edge research and technological innovation at Peking University in the fields of integrated circuits, psychology and cognition, Beijing Xiaomi Foundation officially launched the Peking University Xiaomi Innovation Fund. To help those affected by COVID-19 outbreaks, Beijing Xiaomi Foundation offered prompt assistance to Jilin, Shanghai, Shenzhen and Quanzhou. In May 2022, Beijing Xiaomi Foundation donated RMB1 million to help with pandemic prevention and control in Beijing.

We work hand-in-hand with our employees and partners to overcome difficulties and actively fulfill our social responsibilities. We have always treated employee care as our priority. Since the outbreak of COVID-19 in Shanghai in March 2022, we have donated 2,479 care packages containing daily necessities to our employees in Shanghai. We also help our business partners in times of need. Since 2021, we have provided RMB120 million in subsidies to our offline store partners in response to the impact of COVID-19.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2022 Compared with First Quarter of 2021

The following table sets forth the comparative figures for the first quarter of 2022 and the first quarter of 2021:

	Unaudited	
	Three months ended	
	March 31,	March 31,
	2022	2021
	(RMB in millions)	
Revenue	73,351.5	76,882.2
Cost of sales	(60,641.8)	(62,720.9)
Gross profit	12,709.7	14,161.3
Research and development expenses	(3,494.5)	(3,012.0)
Selling and marketing expenses	(5,256.2)	(4,163.5)
Administrative expenses	(1,244.6)	(987.7)
Fair value changes on investments measured at fair value through profit or loss	(3,550.3)	2,063.2
Share of net (losses)/profits of investments accounted for using the equity method	(201.3)	9.0
Other income	164.9	152.1
Other losses, net	(39.1)	(64.7)
Operating (loss)/profit	(911.4)	8,157.7
Finance income, net	495.3	909.2
(Loss)/profit before income tax	(416.1)	9,066.9
Income tax expenses	(114.6)	(1,278.0)
(Loss)/profit for the period	(530.7)	7,788.9
Non-IFRS measure: Adjusted Net Profit	2,858.6	6,069.3

Revenue

Revenue decreased by 4.6% to RMB73.4 billion in the first quarter of 2022 on a year-on-year basis. The following table sets forth our revenue by line of business in the first quarter of 2022 and the first quarter of 2021:

	Unaudited			
	Three months ended			
	March 31, 2022		March 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	45,762.7	62.4%	51,491.0	67.0%
IoT and lifestyle products	19,477.4	26.6%	18,243.3	23.7%
Internet services	7,112.5	9.7%	6,570.8	8.5%
Others	998.9	1.3%	577.1	0.8%
Total revenue	<u>73,351.5</u>	<u>100.0%</u>	<u>76,882.2</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 11.1% from RMB51.5 billion in the first quarter of 2021 to RMB45.8 billion in the first quarter of 2022, primarily due to the decrease in our smartphone shipment, partially offset by an increase in our smartphone average selling price (“ASP”). Our smartphone shipment decreased by 22.1% from 49.4 million in the first quarter of 2021 to 38.5 million in the first quarter of 2022, primarily due to continued supply shortage of key components, the resurgence of COVID-19, and global macroeconomic headwinds. The ASP of our smartphones increased by 14.1% from RMB1,042.1 per unit in the first quarter of 2021 to RMB1,188.5 per unit in the first quarter of 2022, primarily due to the increase in the proportion of mid-range to premium smartphone shipment to total smartphone shipment.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 6.8% from RMB18.2 billion in the first quarter of 2021 to RMB19.5 billion in the first quarter of 2022, primarily attributable to the increase of sales in mainland China. The increased sales in mainland China was due to the popularity of *Xiaomi Pad 5* series tablets which we introduced in August 2021, as well as increase in sales of smart large home appliances. Revenue from smart TVs and laptops increased by 10.4% from RMB5.6 billion in the first quarter of 2021 to RMB6.2 billion in the first quarter of 2022, mainly due to the increase in shipments of both smart TV and laptops. Revenue from our smart large home appliance category, which comprises smart air conditioners, refrigerators and washing machines, continued to deliver strong growth with revenue increasing more than 25% year-over-year in the first quarter of 2022, primarily due to the increase in shipment of our smart air conditioners.

Internet services

Revenue from our internet services segment increased by 8.2% from RMB6.6 billion in the first quarter of 2021 to RMB7.1 billion in the first quarter of 2022, mainly due to the increase in revenue from our advertising business. The internet services revenue overseas increased by 71.1% from RMB0.9 billion in the first quarter of 2021 to RMB1.6 billion in the first quarter of 2022 driven by the continued expansion of our overseas internet user base.

Others

Other revenue increased by 73.1% from RMB577.1 million in the first quarter of 2021 to RMB998.9 million in the first quarter of 2022, primarily due to the increase in revenue from the sales of buildings and materials.

Cost of Sales

Our cost of sales decreased by 3.3% from RMB62.7 billion in the first quarter of 2021 to RMB60.6 billion in the first quarter of 2022. The following table sets forth our cost of sales by line of business in the first quarter of 2022 and the first quarter of 2021:

	Unaudited			
	Three months ended			
	March 31, 2022		March 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	41,240.6	56.2%	44,857.4	58.3%
IoT and lifestyle products	16,435.4	22.4%	15,590.7	20.3%
Internet services	2,078.4	2.8%	1,816.1	2.4%
Others	887.4	1.3%	456.7	0.6%
Total cost of sales	<u>60,641.8</u>	<u>82.7%</u>	<u>62,720.9</u>	<u>81.6%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 8.1% from RMB44.9 billion in the first quarter of 2021 to RMB41.2 billion in the first quarter of 2022, primarily due to the decreased sales of our smartphones, partially offset by increase of average cost of sales due to higher proportion of mid-range to premium smartphone shipment to total smartphone shipment.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 5.4% from RMB15.6 billion in the first quarter of 2021 to RMB16.4 billion in the first quarter of 2022, primarily due to the increased sales of our IoT and lifestyle products in mainland China, partially offset by the decreased price of key components, such as display panels.

Internet services

Cost of sales related to our internet services segment increased by 14.4% from RMB1.8 billion in the first quarter of 2021 to RMB2.1 billion in the first quarter of 2022, primarily due to an increase sales of our advertising business.

Others

Cost of sales related to our others segment increased by 94.3% from RMB456.7 million in the first quarter of 2021 to RMB887.4 million in the first quarter of 2022, primarily due to the increase sales of buildings and materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 10.2% from RMB14.2 billion in the first quarter of 2021 to RMB12.7 billion in the first quarter of 2022.

The gross profit margin from our smartphones segment decreased from 12.9% in the first quarter of 2021 to 9.9% in the first quarter of 2022, mainly due to the promotion sales of certain smartphone models.

The gross profit margin from our IoT and lifestyle products segment increased from 14.5% in the first quarter of 2021 to 15.6% in the first quarter of 2022, mainly attributable to the decreased price of key components, such as display panels.

The gross profit margin from our internet services segment decreased from 72.4% in the first quarter of 2021 to 70.8% in the first quarter of 2022, mainly due to higher revenue contribution from certain advertising business with lower gross profit margin.

As a result of the foregoing, our gross profit margin decreased from 18.4% in the first quarter of 2021 to 17.3% in the first quarter of 2022.

Research and Development Expenses

Our research and development expenses increased by 16.0% from RMB3.0 billion in the first quarter of 2021 to RMB3.5 billion in the first quarter of 2022, primarily due to the increase in compensation for research and development personnel, as well as increase in R&D expenses related to our new initiatives such as smart electric vehicles.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 26.2% from RMB4.2 billion in the first quarter of 2021 to RMB5.3 billion in the first quarter of 2022, primarily due to the increase in promotion and advertising expenses and the increase in unit cost of overseas shipping logistics. Promotion and advertising expenses increased by 47.9% from RMB1.1 billion in the first quarter of 2021 to RMB1.7 billion in the first quarter of 2022, primarily due to increase in overseas marketing expenses in the first quarter of 2022.

Administrative Expenses

Our administrative expenses increased by 26.0% from RMB1.0 billion in the first quarter of 2021 to RMB1.2 billion in the first quarter of 2022, primarily due to the increase in compensation for administrative personnel.

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 RMB2.1 billion in the first quarter of 2021 to a loss of RMB3.6 billion in the first quarter of 2022, primarily due to the fair value loss of listed equity investments in the first quarter of 2022.

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

Our share of net (losses)/profits of investments accounted for using the equity method changed from a net profit of RMB9.0 million in the first quarter of 2021 to a net loss of RMB201.3 million in the first quarter of 2022, primarily due to the share of losses of our certain investees, such as iQIYI, Inc. (“iQIYI”, Nasdaq: IQ) and Kingsoft Cloud Holdings Limited (“Kingsoft Cloud”, Nasdaq: KC).

Other Income

Our other income increased by 8.5% from RMB152.1 million in the first quarter of 2021 to RMB164.9 million in the first quarter of 2022.

Other Losses, Net

Our other net losses decreased by 39.6% from RMB64.7 million in the first quarter of 2021 to RMB39.1 million in the first quarter of 2022. This was mainly due to the decrease of foreign exchange losses.

Finance Income, Net

Our net finance income decreased by 45.5% from RMB0.9 billion in the first quarter of 2021 to RMB0.5 billion in the first quarter of 2022, primarily due to the change of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses decreased by 91.0% from RMB1.3 billion in the first quarter of 2021 to RMB0.1 billion in the first quarter of 2022, primarily due to the decrease of operating profit in the first quarter of 2022.

(Loss)/Profit for the Period

As a result of the foregoing, we had a loss of RMB0.5 billion in the first quarter of 2022, compared with a profit of RMB7.8 billion in the first quarter of 2021.

Adjusted Net Profit

Our adjusted net profit decreased by 52.9% from RMB6.1 billion in the first quarter of 2021 to RMB2.9 billion in the first quarter of 2022.

First Quarter of 2022 Compared with Fourth Quarter of 2021

The following table sets forth the comparative figures for the first quarter of 2022 and the fourth quarter of 2021:

	Unaudited	
	Three months ended	
	March 31,	December 31,
	2022	2021
	(RMB in millions)	
Revenue	73,351.5	85,575.2
Cost of sales	(60,641.8)	(70,915.7)
Gross profit	12,709.7	14,659.5
Research and development expenses	(3,494.5)	(3,853.2)
Selling and marketing expenses	(5,256.2)	(6,254.3)
Administrative expenses	(1,244.6)	(1,326.3)
Fair value changes on investments measured at fair value through profit or loss	(3,550.3)	3,879.1
Share of net (losses)/profits of investments accounted for using the equity method	(201.3)	247.1
Other income	164.9	205.3
Other losses, net	(39.1)	(3,141.6)
Operating (loss)/profit	(911.4)	4,415.6
Finance Income/(Costs), net	495.3	(531.1)
(Loss)/profit before income tax	(416.1)	3,884.5
Income tax expenses	(114.6)	(1,442.0)
(Loss)/profit for the period	(530.7)	2,442.5
Non-IFRS measure: Adjusted Net Profit	2,858.6	4,473.1

Revenue

Revenue decreased by 14.3% to RMB73.4 billion in the first quarter of 2022 on a quarter-on-quarter basis. The following table sets forth our revenue by line of business in the first quarter of 2022 and the fourth quarter of 2021:

	Unaudited			
	Three months ended		December 31, 2021	
	March 31, 2022		December 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	45,762.7	62.4%	50,464.1	59.0%
IoT and lifestyle products	19,477.4	26.6%	25,066.6	29.3%
Internet services	7,112.5	9.7%	7,269.5	8.5%
Others	998.9	1.3%	2,775.0	3.2%
Total revenue	<u>73,351.5</u>	<u>100.0%</u>	<u>85,575.2</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 9.3% from RMB50.5 billion in the fourth quarter of 2021 to RMB45.8 billion in the first quarter of 2022, primarily due to the decrease in our smartphone shipment, partially offset by an increase in our smartphone ASP. Our smartphone shipment decreased by 12.7% from 44.1 million units in the fourth quarter of 2021 to 38.5 million smartphone units in the first quarter of 2022, primarily due to continued supply shortage of key components, the resurgence of COVID-19, and global macroeconomic headwinds. The ASP of our smartphones increased by 3.9% from RMB1,143.6 per unit in the fourth quarter of 2021 to RMB1,188.5 per unit in the first quarter of 2022, primarily due to the increase in the proportion of mid-range to premium smartphone shipment to total smartphone shipment.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment decreased by 22.3% from RMB25.1 billion in the fourth quarter of 2021 to RMB19.5 billion in the first quarter of 2022, primarily due to less promotional activities in the first quarter of 2022 and decreased sales overseas due to continued challenges in maritime shipping logistics and global macroeconomic headwinds. Revenue from smart TVs and laptops decreased by 28.3% from RMB8.7 billion in the fourth quarter of 2021 to RMB6.2 billion in the first quarter of 2022, primarily due to less promotional activities in the first quarter of 2022.

Internet services

Revenue from our internet services segment decreased by 2.2% from RMB7.3 billion in the fourth quarter of 2021 to RMB7.1 billion in the first quarter of 2022, primarily due to the decreased revenue of our pre-installation business related to smartphone shipments.

Others

Other revenue decreased by 64.0% from RMB2.8 billion in the fourth quarter of 2021 to RMB998.9 million in the first quarter of 2022, primarily due to the decrease in revenue from the sales of buildings.

Cost of Sales

Our cost of sales decreased by 14.5% from RMB70.9 billion in the fourth quarter of 2021 to RMB60.6 billion in the first quarter of 2022. The following table sets forth our cost of sales by line of business in the first quarter of 2022 and the fourth quarter of 2021:

	Unaudited			
	Three months ended			
	March 31, 2022		December 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	41,240.6	56.2%	45,346.1	53.0%
IoT and lifestyle products	16,435.4	22.4%	21,795.9	25.5%
Internet services	2,078.4	2.8%	1,740.2	2.0%
Others	887.4	1.3%	2,033.5	2.4%
	<hr/>	<hr/>	<hr/>	<hr/>
Total cost of sales	<u>60,641.8</u>	<u>82.7%</u>	<u>70,915.7</u>	<u>82.9%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 9.1% from RMB45.3 billion in the fourth quarter of 2021 to RMB41.2 billion in the first quarter of 2022, due to the decreased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment decreased by 24.6% from RMB21.8 billion in the fourth quarter of 2021 to RMB16.4 billion in the first quarter of 2022, primarily due to the decreased sales of our IoT and lifestyle products and the decreased price of key components, such as display panels.

Internet services

Cost of sales related to our internet services segment increased by 19.4% from RMB1.7 billion in the fourth quarter of 2021 to RMB2.1 billion in the first quarter of 2022, primarily due to certain advertising business with lower gross profit margin contributed higher revenue.

Others

Cost of sales related to our others segment decreased by 56.4% from RMB2.0 billion in the fourth quarter of 2021 to RMB887.4 million in the first quarter of 2022, primarily due to the decreased sales of buildings.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 13.3% from RMB14.7 billion in the fourth quarter of 2021 to RMB12.7 billion in the first quarter of 2022.

The gross profit margin from our smartphones segment decreased slightly to 9.9% in the first quarter of 2022 from 10.1% in the fourth quarter of 2021, mainly due to the promotion sales of certain smartphone models.

The gross profit margin from our IoT and lifestyle products segment increased from 13.0% in the fourth quarter of 2021 to 15.6% in the first quarter of 2022, mainly attributable to the decreased price of key components, such as display panels.

The gross profit margin from our internet services segment decreased from 76.1% in the fourth quarter of 2021 to 70.8% in the first quarter of 2022, mainly due to the decreased contribution from advertising business and also certain advertising business with lower gross profit margin contributed higher revenue.

As a result of the foregoing, our gross profit margin increased from 17.1% in the fourth quarter of 2021 to 17.3% in the first quarter of 2022.

Research and Development Expenses

Our research and development expenses decreased by 9.3% from RMB3.9 billion in the fourth quarter of 2021 to RMB3.5 billion in the first quarter of 2022.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 16.0% from RMB6.3 billion in the fourth quarter of 2021 to RMB5.3 billion in the first quarter of 2022, primarily due to the decrease in promotion and advertising expenses. Promotion and advertising expenses decreased by 31.4% from RMB2.4 billion in the fourth quarter of 2021 to RMB1.7 billion in the first quarter of 2022, primarily due to enhanced promotional efforts during major online shopping festivals in the fourth quarter of 2021.

Administrative Expenses

Our administrative expenses decreased by 6.2% from RMB1.3 billion in the fourth quarter of 2021 to RMB1.2 billion in the first quarter of 2022.

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 RMB3.9 billion in the fourth quarter of 2021 to a loss of RMB3.6 billion in the first quarter of 2022, primarily due to the fair value loss of listed equity investments in the first quarter of 2022.

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

Our share of net (losses)/profits of investments accounted for using the equity method changed from a net profit of RMB247.1 million in the fourth quarter of 2021 to a net loss of RMB201.3 million in the first quarter of 2022, primarily due to the share of losses of our certain investees, such as iQIYI and Kingsoft Cloud.

Other Income

Our other income decreased by 19.7% from RMB205.3 million in the fourth quarter of 2021 to RMB164.9 million in the first quarter of 2022, primarily due to the decrease of government grants.

Other Losses, Net

Our other net losses decreased by 98.8% from RMB3,141.6 million in the fourth quarter of 2021 to RMB39.1 million in the first quarter of 2022. This was mainly due to the impairment of certain investments accounted for using the equity method in fourth quarter of 2021 due to global macro-environment.

Finance Income/(Costs), Net

Our net finance income/(costs) changed from a cost of RMB0.5 billion in the fourth quarter of 2021 to an income of RMB0.5 billion in the first quarter of 2022, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses decreased by 92.1% from RMB1.4 billion in the fourth quarter of 2021 to RMB0.1 billion in the first quarter of 2022, primarily due to the decrease of operating profit in the first quarter of 2022.

(Loss)/Profit for the Period

As a result of the foregoing, we had a loss of RMB0.5 billion in the first quarter of 2022, compared with a profit of RMB2.4 billion in the fourth quarter of 2021.

Adjusted Net Profit

Our adjusted net profit decreased by 36.1% from RMB4.5 billion in the fourth quarter of 2021 to RMB2.9 billion in the first quarter of 2022.

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 first quarters of 2022 and 2021, respectively, and the fourth quarter of 2021 to the nearest measures prepared in accordance with IFRS.

	Unaudited Three Months Ended March 31, 2022 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⁾	
Profit for the period	(530,554)	402,287	3,833,506	36,081	(465,665)	(417,065)	2,858,590
Net margin	-0.7%						3.9%

	Unaudited Three Months Ended March 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⁾	
Profit for the period	7,788,907	665,677	(1,666,922)	79	(788,017)	69,557	6,069,281
Net margin	10.1%						7.9%

	Unaudited Three Months Ended 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⁾	
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%

Notes:

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

Liquidity, Financial Resources and Gearing

On December 4, 2020, the Company completed 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 (as defined in the prospectus of the Company dated June 25, 2018 (the “**Prospectus**”)) 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 RMB34.7 billion and RMB23.5 billion as of March 31, 2022 and December 31, 2021, respectively.

Note:

The cash resources which the Group considered in cash management include but are not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss, short-term investments measured at amortized cost and long-term bank deposits. As of March 31, 2022, the aggregate amount of cash resources of the Group was RMB95.0 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.

As at March 31, 2022, no 2027 Bonds had been converted into new Shares.

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	
	March 31,	December 31,
	2022	2021
	(in millions of RMB)	
Net cash (used in)/generated from operating activities ⁽¹⁾	(8,680.6)	11,731.7
Net cash generated from/(used in) investing activities	17,569.4	(20,071.5)
Net cash generated from/(used in) financing activities ⁽¹⁾	2,351.6	(550.1)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	11,240.4	(8,889.9)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of period	23,511.6	32,649.5
Effects of exchange rate changes on cash and cash equivalents	(37.8)	(248.0)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	34,714.2	23,511.6
	<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 RMB7.6 billion in the first quarter of 2022 and the net cash generated from operating activities was RMB12.0 billion in the fourth quarter of 2021, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB2.8 billion in the first quarter of 2022 and the net cash used in financing activities was RMB2.2 billion in the fourth 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 operating activities represents the cash used in our operations plus the income tax paid. Cash used in our operations primarily comprises our loss before income tax adjusted by non-cash items and changes in working capital.

In the first quarter of 2022, net cash used in our operating activities amounted to RMB8.7 billion, representing cash used in operations of RMB7.8 billion plus income tax paid of RMB0.9 billion. Cash used in operations was primarily attributable to our adjusted net profit of RMB2.9 billion, mainly adjusted by an increase in prepayments and other receivables of RMB5.8 billion and an increase in inventories of RMB5.3 billion.

Net Cash Generated from Investing Activities

For the first quarter of 2022, our net cash generated from investing activities was RMB17.6 billion, which was primarily attributed to the net changes of short-term investments measured at fair value through profit or loss of RMB11.5 billion and the net changes of short-term bank deposits of RMB10.5 billion, partially offset by the purchase of long-term investments measured at fair value through profit or loss of RMB3.2 billion.

Net Cash Generated From Financing Activities

For the first quarter of 2022, our net cash generated from financing activities was RMB2.4 billion, which was primarily attributed to the net changes of borrowings of RMB3.5 billion, partially offset by the payments for shares repurchase of RMB0.6 billion.

Borrowings

As of December 31, 2021 and March 31, 2022, we had total borrowings of RMB26.2 billion and RMB29.7 billion, respectively.

Capital Expenditure

	Three months ended	
	March 31,	December 31,
	2022	2021
	(in millions of RMB)	
Capital expenditures	1,321.4	2,010.3
Placement of long-term investments ⁽¹⁾	3,168.2	2,592.2
Total	4,489.6	4,602.5

Note:

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

Off-Balance Sheet Commitments and Arrangements

As of March 31, 2022, except for financial guarantee contracts, we had not entered into any off-balance sheet commitments or arrangements.

Future Plans for Material Investments and Capital Assets

As of March 31, 2022, we did not have other plans for material investments and capital assets.

Investments Held

As of March 31, 2022, we had invested in more than 400 companies with an aggregate book value of RMB59.1 billion, an increase of 13.9% year-over-year. In the first quarter of 2022, we recorded a net gain on disposal of investments (after tax) of RMB0.1 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 March 31, 2022 (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 RMB62.2 billion as of March 31, 2022.

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 March 31, 2022) during the three months ended March 31, 2022.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the three months ended March 31, 2022, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of March 31, 2022, we had 33,793 full-time employees, 31,165 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 March 31, 2022, our research and development personnel, totaling 15,002 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 March 31, 2022, 18,861 employees held share-based awards. The total remuneration expenses, including share-based compensation expenses, in the first quarter of 2022 were RMB3.9 billion, representing an increase of 13.3% from the fourth quarter of 2021.

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 the exposure to various currencies, primarily with respect to the United States Dollar. Therefore, foreign exchange risk primarily arises from the recognized assets and liabilities in our subsidiaries when receiving or expecting to receive foreign currencies from, or paying or expecting to pay foreign currencies to overseas business partners.

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

Pledge of Assets

As of March 31, 2022, we pledged a restricted deposit of RMB3.5 billion, compared with RMB4.3 billion as of December 31, 2021. We also had secured certain construction in progress and land use right for borrowings.

Contingent Liabilities

We did not have any material contingent liabilities as of March 31, 2022 and December 31, 2021. Further details of the contingencies are set out in Note 9 to the financial information.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended March 31, 2022

(Expressed in Renminbi (“RMB”))

	Note	Unaudited Three months ended March 31,	
		2022	2021
		RMB'000	RMB'000
Revenue	2	73,351,502	76,882,163
Cost of sales	2, 3	(60,641,756)	(62,720,932)
Gross profit		12,709,746	14,161,231
Research and development expenses	3	(3,494,539)	(3,011,991)
Selling and marketing expenses	3	(5,256,184)	(4,163,475)
Administrative expenses	3	(1,244,573)	(987,652)
Fair value changes on investments measured at fair value through profit or loss	4	(3,550,255)	2,063,207
Share of net (losses)/profits of investments accounted for using the equity method		(201,332)	8,989
Other income		164,927	152,053
Other losses, net		(39,053)	(64,699)
Operating (loss)/profit		(911,263)	8,157,663
Finance income		265,702	275,208
Finance costs		229,631	634,009
(Loss)/profit before income tax		(415,930)	9,066,880
Income tax expenses		(114,624)	(1,277,973)
(Loss)/profit for the period		(530,554)	7,788,907
Attributable to:			
— Owners of the Company		(587,600)	7,792,889
— Non-controlling interests		57,046	(3,982)
		(530,554)	7,788,907
(Loss)/earnings per share (expressed in RMB per share):			
Basic		(0.02)	0.31
Diluted		(0.02)	0.30

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the three months ended March 31, 2022**(Expressed in RMB)*

	Note	Unaudited Three months ended March 31,	
		2022	2021
		RMB'000	RMB'000
(Loss)/profit for the period		(530,554)	7,788,907
Other comprehensive (loss)/income:			
<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		(21,096)	(55,217)
Net (losses)/gains from changes in fair value of financial assets at fair value through other comprehensive income		(3,175)	3,715
Currency translation differences		(62,344)	97,164
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences		(176,408)	358,708
Other comprehensive (loss)/income for the period, net of tax		(263,023)	404,370
Total comprehensive (loss)/income for the period		(793,577)	8,193,277
Attributable to:			
— Owners of the Company		(848,799)	8,196,150
— Non-controlling interests		55,222	(2,873)
		(793,577)	8,193,277

CONDENSED CONSOLIDATED BALANCE SHEET

As of March 31, 2022

(Expressed in RMB)

		Unaudited As of March 31, 2022 RMB'000	Audited As of December 31, 2021 RMB'000
Assets			
Non-current assets			
Property and equipment		7,223,932	6,964,621
Intangible assets		5,293,058	5,579,159
Investments accounted for using the equity method		10,026,620	10,230,751
Long-term investments measured at fair value through profit or loss	4	49,122,848	50,113,702
Deferred income tax assets		1,915,059	1,661,947
Long-term bank deposits		15,862,841	16,195,419
Long-term investments measured at amortized cost	4	372,008	351,362
Other non-current assets		15,967,939	15,943,508
		<u>105,784,305</u>	<u>107,040,469</u>
Current assets			
Inventories	6	56,144,700	52,397,946
Trade receivables	5	17,239,735	17,985,503
Loan receivables		5,245,380	5,109,034
Prepayments and other receivables		25,514,715	19,851,884
Bills receivables measured at fair value through other comprehensive income		267,201	14,033
Short-term investments measured at fair value through other comprehensive income	4	649,788	710,865
Short-term investments measured at amortized cost	4	635,415	1,597,919
Short-term investments measured at fair value through profit or loss	4	17,695,319	29,311,848
Short-term bank deposits		22,543,790	31,041,129
Restricted cash		3,547,123	4,319,661
Cash and cash equivalents		34,714,164	23,511,579
		<u>184,197,330</u>	<u>185,851,401</u>
Total assets		<u><u>289,981,635</u></u>	<u><u>292,891,870</u></u>

	Note	Unaudited As of March 31, 2022 RMB'000	Audited As of December 31, 2021 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		407	407
Reserves		<u>136,374,851</u>	<u>137,212,499</u>
		<u>136,375,258</u>	<u>137,212,906</u>
Non-controlling interests		<u>273,479</u>	<u>219,590</u>
Total equity		<u><u>136,648,737</u></u>	<u><u>137,432,496</u></u>
Liabilities			
Non-current liabilities			
Borrowings	7	20,492,213	20,719,790
Deferred income tax liabilities		808,986	1,202,717
Warranty provision		1,100,512	895,747
Other non-current liabilities		<u>16,901,581</u>	<u>16,913,649</u>
		<u>39,303,292</u>	<u>39,731,903</u>
Current liabilities			
Trade payables	8	74,874,543	74,643,005
Other payables and accruals		15,895,565	20,224,499
Advance from customers		8,473,168	9,289,177
Borrowings	7	9,221,716	5,527,050
Income tax liabilities		2,093,396	2,335,124
Warranty provision		<u>3,471,218</u>	<u>3,708,616</u>
		<u>114,029,606</u>	<u>115,727,471</u>
Total liabilities		<u><u>153,332,898</u></u>	<u><u>155,459,374</u></u>
Total equity and liabilities		<u><u>289,981,635</u></u>	<u><u>292,891,870</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2022

(Expressed in RMB)

	Unaudited	
	Three months ended	
	March 31,	
	2022	2021
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(8,680,606)	1,453,986
Net cash generated from/(used in) investing activities	17,569,436	(25,546,673)
Net cash generated from financing activities	<u>2,351,588</u>	<u>3,583,567</u>
Net increase/(decrease) in cash and cash equivalents	11,240,418	(20,509,120)
Cash and cash equivalents at the beginning of the period	23,511,579	54,752,443
Effects of exchange rate changes on cash and cash equivalents	<u>(37,833)</u>	<u>36,183</u>
Cash and cash equivalents at end of the period	<u><u>34,714,164</u></u>	<u><u>34,279,506</u></u>

1 Basis of preparation

The condensed consolidated interim financial information comprises the condensed consolidated balance sheet as of March 31, 2022, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three-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, 2021 which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) by the Group as set out in the 2021 annual report of the Company dated March 22, 2022 (the “**2021 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, 2021, as described in the 2021 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 ended March 31, 2022 and 2021. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

The segment results for the three months ended March 31, 2022 and 2021 are as follows:

	Three months ended March 31, 2022				
	Smartphones RMB’000	IoT and lifestyle products RMB’000	Internet services RMB’000	Others RMB’000	Total RMB’000
(Unaudited)					
Segment revenues	45,762,689	19,477,357	7,112,481	998,975	73,351,502
Cost of sales	(41,240,598)	(16,435,379)	(2,078,351)	(887,428)	(60,641,756)
Gross profit	4,522,091	3,041,978	5,034,130	111,547	12,709,746

	Three months ended March 31, 2021				Total RMB'000
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	
(Unaudited)					
Segment revenues	51,490,983	18,243,267	6,570,848	577,065	76,882,163
Cost of sales	(44,857,384)	(15,590,732)	(1,816,119)	(456,697)	(62,720,932)
Gross profit	6,633,599	2,652,535	4,754,729	120,368	14,161,231

For the three months ended March 31, 2022 and 2021, the geographical information on the total revenues is as follows:

	Three months ended March 31,			
	2022		2021	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Mainland China	35,889,645	48.9	39,473,714	51.3
Rest of the world (Note(a))	37,461,857	51.1	37,408,449	48.7
	<u>73,351,502</u>		<u>76,882,163</u>	

Note:

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

3 Expenses by nature

	Three months ended March 31,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories sold and royalty fees	55,276,704	59,162,724
Provision for impairment of inventories	1,531,196	317,118
Employee benefit expenses	3,895,114	3,383,311
Depreciation of property and equipment, right-of-use assets and investment properties	544,464	359,695
Amortization of intangible assets	333,969	297,635
Promotion and advertising expenses	1,674,737	1,132,661
Content fees to game developers and video providers	799,881	683,452
Credit loss allowance for loan receivables	20,696	58,553
Consultancy and professional service fees	332,352	287,555
Cloud service, bandwidth and server custody fees	591,874	573,782
Warranty expenses	1,091,711	1,072,526

4 Investments

	As of March 31, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000 (Audited)
Current assets		
Short-term investments measured at		
— Amortized cost	635,415	1,597,919
— Fair value through other comprehensive income	649,788	710,865
— Fair value through profit or loss	17,695,319	29,311,848
	<u>18,980,522</u>	<u>31,620,632</u>
Non-current assets		
Long-term investments measured at amortized cost	372,008	351,362
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments	18,992,617	22,755,228
— Preferred shares investments	25,660,620	25,108,840
— Other investments	4,469,611	2,249,634
	<u>49,494,856</u>	<u>50,465,064</u>

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

	Three months ended March 31,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Fair value changes on equity investments	(3,690,754)	900,805
Fair value changes on preferred shares investments	11,810	949,527
Fair value changes on short-term investments measured at fair value through profit or loss	120,596	212,875
Fair value changes on other investments	8,093	—
	<u>(3,550,255)</u>	<u>2,063,207</u>

5 Trade receivables

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

	As of March 31, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000 (Audited)
Trade receivables		
Up to 3 months	12,466,553	15,740,356
3 to 6 months	4,070,022	1,477,059
6 months to 1 year	358,526	652,701
1 to 2 years	405,278	184,058
Over 2 years	107,464	95,306
	<u>17,407,843</u>	<u>18,149,480</u>
Less: credit loss allowance	<u>(168,108)</u>	<u>(163,977)</u>
	<u><u>17,239,735</u></u>	<u><u>17,985,503</u></u>

6 Inventories

	As of March 31, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000 (Audited)
Raw materials	19,840,913	19,314,001
Finished goods	26,603,040	23,934,395
Work in progress	4,778,343	4,627,210
Spare parts	4,621,093	3,896,430
Others	2,040,351	1,957,057
	<u>57,883,740</u>	<u>53,729,093</u>
Less: provision for impairment	<u>(1,739,040)</u>	<u>(1,331,147)</u>
	<u><u>56,144,700</u></u>	<u><u>52,397,946</u></u>

7 Borrowings

	As of March 31, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000 (Audited)
Included in non-current liabilities		
Secured borrowings	1,377,934	1,576,761
Unsecured borrowings	14,945,679	15,004,487
Convertible bonds	4,168,600	4,138,542
	<u>20,492,213</u>	<u>20,719,790</u>
Included in current liabilities		
Secured borrowings	651,745	507,217
Unsecured borrowings	8,569,971	5,019,833
	<u>9,221,716</u>	<u>5,527,050</u>

8 Trade payables

Trade payables primarily include payables for inventories. As of March 31, 2022 and December 31, 2021, the carrying amounts of trade payables were primarily denominated in RMB, US\$ and India Rupees.

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

	As of March 31, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000 (Audited)
Up to 3 months	69,929,383	70,187,231
3 to 6 months	1,933,469	2,526,217
6 months to 1 year	2,196,780	1,343,318
1 to 2 years	678,612	490,484
Over 2 years	136,299	95,755
	<u>74,874,543</u>	<u>74,643,005</u>

9 Contingencies

On December 21, 2021, the Income Tax Department of India (“**Income Tax Department**”) commenced an investigation on mobile phone manufacturing companies, including Xiaomi India, in relation to their compliance with relevant income tax regulations. As of the issuance date of this announcement, as the investigation on Xiaomi India was still in progress, the Group has not yet 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 and March 31, 2022, the Group did not make any provisions for potential loss contingencies pertaining to this investigation.

On January 5, 2022, the Directorate of Revenue Intelligence of India (“**DRI**”) issued notices (“**Notices**”) to Xiaomi India for demand and recovery of custom duty amounting to Rs.653 crore (equivalent to approximately RMB560 million) owed for the period from April 1, 2017 to June 30, 2020. In April 2022, Xiaomi India was notified by the DRI to delay the submission of the 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 and March 31, 2022, the Group did not make any provisions for potential loss contingencies pertaining to this matter.

The Directorate of Enforcement (“**ED**”) in India initiated an investigation in connection with the remittance of royalty fees by Xiaomi India to independent third parties and a related party within the Group. On April 29, 2022, the ED issued an order to Xiaomi India and frozen INR5,551 crore (equivalent to RMB4.8 billion) (the “**Order**”), alleging the remittance lacked commercial substance and that Xiaomi India violated Section 4 of the Foreign Exchange Management Act (“**FEMA**”). The Group resorted to a High Court in India which ruled a stay of the enforcement of the Order until May 12, 2022 on May 5, 2022, and then until May 23, 2022 on May 12, 2022, and the Group will continue the resort on May 23, 2022 and onwards. Management and legal counsel assessed and concluded the payment of royalty fees by Xiaomi India had commercial justifications and the amounts of royalty fee were determined based on commercial terms. Accordingly, management believes the remittance of royalty fees by Xiaomi India were in full compliance of the law in India, and the likelihood of material resource outflow as a result of the Order is remote. As of March 31, 2022, 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 March 31, 2022, no material provisions were recorded.

OTHER INFORMATION

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

During the three months ended March 31, 2022 and up to the date of this announcement, the Company repurchased a total of 87,248,000 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 approximately HK\$1,258,372,114. 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\$)	
January	14,295,000	18.64	17.70	261,322,614
March	35,209,000	14.60	13.46	498,281,463
April	<u>37,744,000</u>	13.82	12.26	<u>498,768,037</u>
Total	<u><u>87,248,000</u></u>			<u><u>1,258,372,114</u></u>

As at the date of this announcement, the number of Class B Shares in issue was reduced by 14,295,000 as a result of the cancellation of the Shares Repurchased in January 2022, and all of the Shares Repurchased in March 2022 and April 2022 are in the process of being cancelled. Upon cancellation of the Shares Repurchased, the weighted voting rights (“**WVR**”) beneficiaries of the Company will simultaneously reduce 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 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 three months ended March 31, 2022 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 during the three months ended March 31, 2022.

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.

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 months ended March 31, 2022. 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 March 31, 2022, 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.

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.

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 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.

Events after March 31, 2022

Save as disclosed in this announcement, there have been no other significant events that might affect the Group after March 31, 2022 and up to the date of this announcement.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, May 19, 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.