Stock Code: 1810

XIAOMI CORPORATION

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

2022 ANNUAL REPORT

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

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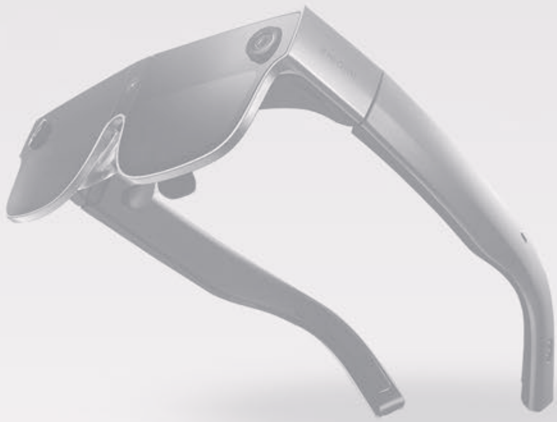
We relentlessly
build amazing products
with honest prices
to let everyone in the world
enjoy a better life through
innovative technology



CORPORATE INFORMATION

Board of Directors

Executive Directors

Lei Jun（雷軍）*(Chairman of the Board)*
Lin Bin（林斌）*(Vice Chairman of the Board)*
Liu De (劉德)

Non-Executive Director

Liu Qin （劉芹）

Independent Non-Executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Corporate Governance Committee

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

Joint Company Secretaries

So Ka Man （蘇嘉敏）
Liu Hao （劉灝）(appointed with effect from March 25, 2022)

Authorized Representatives

Lin Bin （林斌）
So Ka Man （蘇嘉敏）

Auditor

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

Registered Office

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

Head Office and Principal Place of Business in Mainland China

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

Principal Place of Business in Hong Kong

5/F, Manulife Place
348 Kwun Tong Road, Kowloon
Hong Kong

Hong Kong Legal Advisor

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

Compliance Advisor

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

Hong Kong Share Registrar

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

Principal Share Registrar and Transfer Office

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

Principal Banker

China Merchants Bank, Beijing Branch, Shouti Sub-branch

Stock Code

1810

Company Website

www.mi.com

FIVE-YEAR FINANCIAL SUMMARY

Condensed consolidated statements of comprehensive income

	Year ended December 31,				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	**280,044,016**	328,309,145	245,865,633	205,838,682	174,915,425
Gross profit	**47,577,190**	58,260,941	36,751,862	28,554,033	22,191,939
Operating profit	**2,816,498**	26,028,664	24,034,729	11,760,217	1,196,472
Profit before income tax	**3,933,956**	24,417,033	21,633,432	12,162,646	13,927,124
Profit for the year	**2,502,568**	19,283,235	20,312,710	10,102,950	13,477,747
Profit attributable to owners of the Company	**2,474,030**	19,339,321	20,355,504	10,044,164	13,553,886
Total comprehensive income for the year	**6,247,923**	17,879,021	17,949,889	10,543,383	11,921,632
Total comprehensive income attributable to owners of the Company	**6,201,669**	17,940,990	17,986,452	10,472,914	11,989,243
Non-IFRS Measure: Adjusted net profit	**8,518,007**	22,039,474	13,006,363	11,532,296	8,554,548

Condensed consolidated balance sheets

	As of December 31,				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Assets					
Non-current assets	**113,092,416**	107,040,469	77,396,988	46,090,121	39,215,389
Current assets	**160,414,795**	185,851,401	176,282,835	137,539,086	106,012,561
Total assets	**273,507,211**	292,891,870	253,679,823	183,629,207	145,227,950
Equity and liabilities					
Equity attributable to owners of the Company	**143,658,458**	137,212,906	123,691,696	81,330,574	71,322,985
Non-controlling interests	**264,602**	219,590	321,819	327,102	(72,856)
Total equity	**143,923,060**	137,432,496	124,013,515	81,657,676	71,250,129
Non-current liabilities	**39,956,618**	39,731,903	21,739,380	9,790,826	12,037,663
Current liabilities	**89,627,533**	115,727,471	107,926,928	92,180,705	61,940,158
Total liabilities	**129,584,151**	155,459,374	129,666,308	101,971,531	73,977,821
Total equity and liabilities	**273,507,211**	292,891,870	253,679,823	183,629,207	145,227,950

xiaomi

Year ended December 31, 2022

Total revenue	Smartphone revenue	IoT and lifestyle products revenue	Internet services revenue
280.0 RMB billion	167.2 RMB billion	79.8 RMB billion	28.3 RMB billion

Overseas revenue	Smartphone shipments	Connected IoT devices[1]	MIUI MAU[2]
49.2% of total revenue	150.5 million units	589.4 million units	582.1 million

Notes:

(1) Connected IoT devices as of December 31, 2022, excluding smartphones, tablets, and laptops

(2) In December 2022

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended December 31, 2022 to the shareholders.

Business Review and Outlook

OVERALL PERFORMANCE

SMARTPHONES

IoT AND LIFESTYLE PRODUCTS

INTERNET SERVICES

STRATEGY UPDATES

1. Overall performance

2022 was full of challenges, the global economy and industry development was impacted by a variety of factors. According to the International Monetary Fund ("**IMF**")[1], global economic growth declined to 3.4% in 2022 from 6.2% in 2021. However, amid the challenging macro environment, each of our business segments remained resilient. In 2022, our total revenue amounted to RMB280.0 billion; our adjusted net profit was RMB8.5 billion, which included RMB3.1 billion in expenses related to our smart Electric Vehicle ("**EV**") and other new initiatives.

1 IMF's World Economic Outlook, published in April 2023.

We remain committed to our core "Smartphone × AIoT" strategy. According to Canalys, global smartphone shipments in 2022 hit a historical nine-year low, declining 11.7% year-over-year. However, we demonstrated resilience amid the market downturn. In 2022, our global smartphone shipments reached 150.5 million units. According to Canalys, we maintained our No. 3 global smartphone shipment ranking with 12.8% market share. Meanwhile, our global smartphone user base reached a new record high. In December 2022, our monthly active users ("**MAU**") of MIUI reached 582.1 million globally, an increase of 14.4% year-over-year. As of December 31, 2022, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 589.4 million, up 35.8% year-over-year.

After three years of relentless execution of our smartphone premiumization strategy, we have achieved substantial progress. In July and August 2022, we unveiled our premium smartphone models *Xiaomi 12S Ultra* and *Xiaomi MIX Fold 2* in mainland China. Both models have successfully maintained their prices throughout their life cycles. Furthermore, we launched the *Xiaomi 13 Series*[2] of premium smartphones in mainland China in December 2022. To date, these three consecutive premium products[3] have earned a strongly positive reputation among users.

In 2022, despite the fluctuations in the broader macro environment and geopolitical disruptions, the global presence we have established over the past years have helped us to effectively insulate our business against single market risks. In 2022, our revenue from overseas markets reached RMB137.8 billion and accounted for 49.2% of our total revenue. According to Canalys, our market share of smartphone shipments in 2022 ranked among the top three in 54 countries and regions and among the top five in 69 countries and regions globally; our market share of smartphone shipments through carrier channels in 2022 ranked among the top three in 38 overseas markets.

We have taken steadfast actions to invest in our future. In 2022, our research and development expenses reached RMB16.0 billion, a compound annual growth rate ("**CAGR**") of 38.4% between 2017 and 2022. We will continue this approach and will invest over RMB100 billion in research and development over the five-year period beginning in 2022 through 2026. At the same time, we are actively enriching our talents. As of December 31, 2022, our research and development personnel accounted for approximately 50% of our total headcount. Additionally, we released our first white paper on intellectual property rights in December 2022, which highlights our intellectual property achievements and technological innovation capabilities. As of December 31, 2022, we have obtained more than 30,000 patents worldwide, covering more than 60 countries and regions. In addition, we released several exciting new technology advancements in February 2023, including 300W wired fast charging technology, solid-state battery technology and *Xiaomi Wireless AR Glass Discovery Edition*. We will continue to explore self-developed technologies while striving to create and innovate.

2 Including *Xiaomi 13, Xiaomi 13 Pro* and *Xiaomi 13 in five limited edition custom colors*.

3 Including *Xiaomi 12S Ultra, Xiaomi MIX Fold 2* and *Xiaomi 13 Series*.

CHAIRMAN'S STATEMENT

2. Smartphones

In 2022, the global macroeconomic turbulence continued to weigh on global smartphone market demand. According to Canalys, global smartphone shipments declined by 11.7% year-over-year in 2022 and reached a record low since 2014. Nevertheless, our smartphone business remained resilient, and we effectively advanced our premiumization strategy. In 2022, our smartphone revenue reached RMB167.2 billion and our global smartphone shipments amounted to 150.5 million units. The average selling price ("**ASP**") of our smartphones also reached RMB1,111, setting a record high.

We continued to advance our dual-brand strategy. Under the Xiaomi brand, in May 2022, we announced our long-term strategic partnership in imaging technology with Leica. In July 2022, we unveiled the *Xiaomi 12S Series*[4] with our first co-engineered imaging system with Leica, and the series has won rave reviews due to its unparalleled smartphone imaging experience. In August 2022, we launched our second-generation foldable smartphone, *Xiaomi MIX Fold 2*, which featured our self-developed Micro Waterdrop Hinge and flexible ultra-thin glass to provide a revolutionary ultra-slim design. We launched *Xiaomi Civi 2* in September 2022, our first smartphone equipped with dual ultra-high definition 32MP main front cameras, which enhanced self-portraits and videos with natural realism and depth-of-field. In December 2022, we launched the blockbuster *Xiaomi 13 Series*, with in-depth research and development collaboration with Leica. While the *Xiaomi 13 Series* was equipped with three Leica professional optical lenses, the *Xiaomi 13 Pro* featured a main camera with an ultra-large 1-inch sensor, a Leica 75mm floating telephoto camera and a Leica ultra-wide camera, bringing users a supremely textured imaging experience. According to third-party data, we achieved the No. 1 smartphone market share among Android vendors in the RMB4,000–RMB6,000 price segment for seven consecutive weeks in mainland China since the week after the launch of the *Xiaomi 13 Series*.

Under the Redmi brand, we continued to provide highly competitive products to the mass market. Following the successful launch of *Redmi Note 11T Pro Series, Redmi K50 Ultra* and *Redmi Note 12 Series*[5] in May 2022, August 2022 and October 2022, respectively, in December 2022, we launched the first Redmi model with wireless charging technology, the *Redmi K60 Series*[6]. The *Redmi K60* was powered by the Snapdragon 8+ Gen 1 processor and 5,500mAh battery, with a 2K AMOLED screen. The *Redmi K60 Pro* was equipped with the Snapdragon 8 Gen 2 processor and a Sony IMX800 camera, and supported 120W wired fast charging and 30W wireless fast charging. The exceptional performance and remarkable user experience of the *Redmi K60 Series* drove widespread user recognition immediately after its launch, with sales volume exceeding 300,000 units in the first five minutes after its market debut.

4 Including *Xiaomi 12S, Xiaomi 12S Pro,* and *Xiaomi 12S Ultra*.

5 Includes *Redmi Note 12 5G, Redmi Note 12 YIBO EDITION, Redmi Note 12 DISCOVERY EDITION, Redmi Note 12 Pro* and *Redmi Note 12 Pro+*.

6 Including *Redmi K60, Redmi K60 Pro* and *Redmi K60 CHAMPION PERFORMANCE EDITION*.

We ranked No. 1 in brand loyalty among Android smartphone brands in mainland China for two consecutive years. According to third-party data, 50.1% of users of the Xiaomi brand continued to choose the Xiaomi brand when replacing their smartphones, exceeding the percentage for other Android smartphone brands. Meanwhile, our 5G smartphones' performance has been highly recognized by China Mobile. According to the "2022 China Mobile 5G Smartphone Performance Assessment Report", our premium model, the *Xiaomi 12S Ultra*, ranked No. 1 in a broad array of categories, including overall product performance, camera performance, and video recording performance. In addition, several of our products ranked among the top three in the 5G smartphone performance assessment in various price segments, such as the *Xiaomi 12S Series* and the *Redmi K50 Series*.

3. IoT and lifestyle products

In 2022, revenue from our IoT and lifestyle products amounted to RMB79.8 billion, a decrease of 6.1% year-over-year.

Our Smart TV business remained solid as we held steadfast to advancing our brand premiumization strategy. Despite a 5.6% decline in global smart TV shipments,[7] our global smart TV shipments grew to 12.4 million units, an increase of 0.6% year-over-year, once again outperforming the market. According to All View Cloud ("**AVC**"), our TV shipments maintain a top 5 ranking globally. Upholding our objective of developing high-quality large-screen TVs, we introduced the *Redmi Smart TV X86* with 86-inch screen and the *Xiaomi TV EA Pro 86-inch* in October 2022 and December 2022, respectively, offering an excellent audio and video experience and achieving new breakthroughs in imaging experience.

In 2022, as we continued to enrich our portfolio of smart large home appliances[8], we made significant strides in user recognition and our revenue from smart large home appliances grew over 40% year-over-year. Our air conditioner shipments grew by over 50% year-over-year in 2022, outperforming the market with our online market share by value of sales up by 1.3%[9]. In 2022, our Mijia air conditioners received a total of nine industry technology awards, three Red Dot Awards from Germany and one International Design Excellence Award ("**IDEA**") from the U.S. Furthermore, our refrigerator shipments grew by approximately 100% year-over-year in 2022. As for washing machines, our shipments exceeded 1.0 million units in 2022. We are dedicated to meeting users' diverse needs in different scenarios to enhance user experience.

Other key AIoT categories also received widespread user recognition. In 2022, our tablet shipments increased by over 160% year-over-year in mainland China. According to Canalys, our tablet market share ranking in mainland China rose to No. 3 in 2022, and our shipments of wearable bands[10] and TWS earbuds in 2022 both ranked No. 2 in mainland China.

7 Data from All View Cloud.

8 Including air conditioners, refrigerators and washing machines.

9 Data from All View Cloud.

10 Including basic bands, basic watches and smart watches.

CHAIRMAN'S STATEMENT

4. Internet services

In 2022, revenue from internet services reached RMB28.3 billion, an increase of 0.4% year-over-year.

Our global internet user base continued to grow. The MAU of MIUI globally and in mainland China both reached record highs once again. In December 2022, global MAU of MIUI reached 582.1 million, an increase of 14.4% year-over-year, while MAU of MIUI in mainland China reached to 143.7 million, up 10.7% year-over-year. In the full year of 2022, we added 73.3 million global MAU of MIUI, including 13.8 million MAU in mainland China.

In 2022, our overseas internet services maintained robust growth. Full-year revenue from overseas internet services increased by 35.2% year-over-year to RMB6.8 billion, accounting for 24.0% of our total internet services revenue.

In 2022, despite the challenges in the advertising industry, our advertising business achieved steady growth. Our advertising revenue reached RMB18.5 billion, up 2.1% year-over-year. In addition, revenue from both overseas pre-installation and performance-based and brand advertising registered new annual highs, driven by a diversified advertiser base and improved monetization efficiency.

According to "2022 China's Mobile Game Industry Report", sales revenue in China's mobile gaming market declined by 14.4% year-over-year in 2022. Despite this decline, our gaming business outperformed the market in 2022 supported by the steady advancement of our smartphone premiumization strategy and continual improvements in operating efficiency. Our gaming revenue reached RMB4.1 billion in 2022, up 4.4% year-over-year.

Regarding our TV internet business, we are committed to meeting the diversified smart entertainment needs of a wide variety of families. In 2022, revenue from TV VAS[11] in mainland China increased over 25% year-over-year. In December 2022, global MAU of our smart TV[12] exceeded 58 million. Notably, as of December 31, 2022, the number of our TV internet paid subscribers grew by 23.0% to 6.0 million.

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11 TV VAS primarily includes subscription services.

12 Including *Xiaomi Box* and *Xiaomi TV Stick*.

5. Strategy updates

Dual emphasis on scale and profitability

"Dual emphasis on scale and profitability" is our 2023 operating strategy. Since our inception, we have always prioritized scale expansion, with a commitment to bringing highly competitive smart products to consumers worldwide. As we have entered the next phase of our development cycle, we will elevate profitability to the same level of importance as scale. At the same time, we will improve our internal management structure, enhance our operating efficiency and optimize our resource allocation to strengthen our in-depth research and development of cutting-edge technology, as well as the development of other innovative initiatives.

Corporate governance enhancements

After five years investment in talents and systematic process management, our management team has completed the transformation from an early entrepreneurial team to an experienced, professional team of leaders. To further facilitate corporate governance, enhance decision-making efficiency, and develop a viable long-term governance system, we established two new committees in early 2023, which are the Group Business Operation Committee and the Group Human Resources Committee. The Group Business Operation Committee will guide our business development and decision-making, while the Group Human Resources Committee will be responsible for managing our human resources strategy and formulating major human resources policies, as well as approving critical organizational restructuring and the appointment of senior leaders. The creation of these two committees has elevated our internal synergies and decision-making efficiency to new heights.

Smart electric vehicles

With respect to smart EVs, we are on track to achieve our goal of mass production in the first half of 2024. In 2022, expenses related to our smart EV and other new initiatives amounted to RMB3.1 billion. As of March, 2023, we currently have around 2,300 research and development employees in the EV business.

Smartphone × AIoT

In 2022, we remained focused on executing our "Smartphone × AIoT" strategy. As of December 31, 2022, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 589.4 million, up 35.8% year-over-year. The number of users with five or more devices connected to our AIoT platform (excluding smartphones, tablets and laptops) reached 11.6 million, an increase of 32.5% year-over-year. In December 2022, the MAU of our AI Assistant (" 小愛同學") reached 114.6 million, up 7.1% year-over-year, and the MAU of our Mi Home App grew to 75.8 million, an increase of 18.6% year-over-year.

CHAIRMAN'S STATEMENT

We continued to deepen the synergies between our smart hardware and software and reinforce the interconnectivity and interoperability of smartphones and AIoT products. In December 2022, we launched the newly upgraded MIUI 14, which has been greatly streamlined with 60% improvement in system fluency through photon engine architecture. The MIUI 14 also adopted device-side privacy technology that performs computations for sensitive data locally, highlighting its strong privacy protection capabilities. Moreover, MIUI 14 offered a faster interconnection experience with a 50% increase in AIoT product identification speed and a 77% improvement in transmission speed.[13]

New Retail

In 2022, we worked to improve the operating efficiency of our offline channel business. Despite the continued impact of COVID-19, which led to a reduction in Mi Home's full-year traffic, the gross merchandise value ("**GMV**") of our offline channels continued to grow. As of December 31, 2022, the number of our offline retail stores remained above 10,000 in mainland China. We consistently optimized display layouts, upgraded our product mix and offered cross-selling promotions at our offline stores in 2022. These efforts increased our offline stores' GMV of AIoT products by over 27% year-over-year. Offline distribution is also a critical channel for our premiumization strategy. As offline channels gradually recovered in the post-pandemic era, during January and February 2023, the average single-store GMV per month[14] increased by over 30% compare to the fourth quarter of 2022. As of February 28, 2023, offline channels contributed 55% of total cumulative sales volume of the *Xiaomi 13 Series*.

Corporate Social Responsibility (CSR)

We have been actively promoting sustainable corporate development. In August 2022, Forbes China released its inaugural China ESG 50 report to recognize companies that adhere to best practices in environmental, social and governance (ESG) and listed Xiaomi Corporation on its China ESG 50 list for 2022. In October 2022, Xiaomi Corporation was selected into Forbes' World's Best Employers list for the second consecutive year, demonstrating strong endorsement of Xiaomi's practices in areas including talent development and social responsibility.

We highly value corporate social responsibility and actively help those in need. In August 2022, Beijing Xiaomi Foundation donated RMB100,000 to Chongqing Beibei District Charity Foundation to support rescue operations associated with local mountain fires and the procurement of emergency supplies. In September 2022, Beijing Xiaomi Foundation donated RMB1 million to the Sichuan Charity Federation to help with reconstruction in earthquake affected regions in Ganzi, Sichuan. In September 2022, Xiaomi Foundation Limited in Hong Kong donated USD100,000 to the UN Refugee Agency to support its assistance of flood affected regions in Pakistan.

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13 All data are from Xiaomi Labs, using the same platform and similar equipment. The data may fluctuate within a small range during multiple tests.

14 Average single-store GMV per month is calculated as the total GMV generated from offline retail stores during the period divided by the average of the number of offline retail stores at the beginning and the end of the period, then divided by the number of months during that period.

In addition, we participated in education equality initiatives in Malaysia, Thailand, Vietnam and Singapore, providing digital education equipment to local students by donating items such as LCD writing tablets. In October 2022, we partnered with National Geographic Magazine China to jointly launch the "Exploring Moments" public education program, aimed at inspiring global youth to understand and appreciate the Earth and its environment and unlocking their infinite creative potential through innovative technology.

We are committed to leveraging our scale and efficiency to drive a more sustainable economy that supports our users, our employees, our partners and our planet. We announced our first product carbon footprint in February 2023: we have conducted an LCA carbon footprint analysis on our latest flagship smartphone *Xiaomi 13 Pro*. The analysis was conducted in collaboration with an external carbon data analysis and certification organization, which enabled the establishment of a comprehensive process and methodological model for assessing the carbon footprint of smartphone products. This initiative is a critical first step to reduce our carbon footprint and ensure that our products have a positive impact on the environment. Xiaomi, as a participant of the United Nations Global Compact ("**UNGC**"), which supports the Sustainable Development Goals ("**SDGs**") established by the United Nations, places great importance on integrating sustainability objectives that align with our business and industry. We have now implemented a LCA carbon footprint management system, marking a critical step towards our ability to achieve our sustainability objectives. This also underscores our commitment as a company to developing eco-friendly products that benefit both consumers and the planet.

Our Pledge

Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. To achieve this, as approved by our Board in May 2018, we pledged to our existing and potential users that starting from 2018, the Xiaomi Hardware Business ("**HB**"), including smartphones and IoT and lifestyle products, would have an overall net profit margin that would not exceed 5.0% per year. If the net margin exceeds 5.0%, we will return the excess above 5.0% to our users. In 2022, the overall net margin of our hardware business was less than 1%, fulfilling our pledge. (For the definition of hardware business net margin, please refer to Hardware Business Net Margin.)

Lei Jun
Chairman

Hong Kong
March 24, 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

The following table sets forth the comparative figures for the years ended December 31, 2022 and 2021:

	Year ended December 31,	
	2022	2021
	(RMB in millions)	
Revenue	280,044.0	328,309.1
Cost of sales	(232,466.8)	(270,048.2)
Gross profit	47,577.2	58,260.9
Research and development expenses	(16,028.1)	(13,167.1)
Selling and marketing expenses	(21,323.3)	(20,980.8)
Administrative expenses	(5,113.9)	(4,738.9)
Fair value changes on investments measured at fair value through profit or loss	(1,662.0)	8,132.1
Share of net (losses)/profits of investments accounted for using the equity method	(400.1)	275.0
Other income	1,135.5	826.9
Other losses, net	(1,368.8)	(2,579.5)
Operating profit	2,816.5	26,028.6
Finance income/(costs), net	1,117.5	(1,611.6)
Profit before income tax	3,934.0	24,417.0
Income tax expenses	(1,431.4)	(5,133.8)
Profit for the year	2,502.6	19,283.2
Non-IFRS Measure: Adjusted net profit	8,518.0	22,039.5

Revenue

Revenue decreased by 14.7% to RMB280.0 billion for the Reporting Period, compared to RMB328.3 billion for the year ended December 31, 2021. The following table sets forth our revenue by line of business for the Reporting Period and the year ended December 31, 2021:

	Year ended December 31,			
	2022		2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	167,217.2	59.7%	208,868.9	63.6%
IoT and lifestyle products	79,794.9	28.5%	84,980.1	25.9%
Internet services	28,321.4	10.1%	28,211.7	8.6%
Others	4,710.5	1.7%	6,248.4	1.9%
Total revenue	280,044.0	100.0%	328,309.1	100.0%

Smartphones

Revenue from our smartphones segment decreased by 19.9% from RMB208.9 billion for the year ended December 31, 2021 to RMB167.2 billion for the Reporting Period, primarily due to the decrease in our smartphone shipments, partially offset by the increase in our smartphone ASP. Our smartphone shipments decreased by 20.9% from 190.3 million for the year ended December 31, 2021 to 150.5 million for the Reporting Period, primarily due to the weakened demand of the overall smartphone market affected by global macroeconomic headwinds and geopolitical disruptions. The ASP of our smartphones increased by 1.3% from RMB1,097.5 per unit for the year ended December 31, 2021 to RMB1,111.3 per unit for the Reporting Period.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment decreased by 6.1% from RMB85.0 billion for the year ended December 31, 2021 to RMB79.8 billion for the Reporting Period, primarily attributable to the decreased sales of smart TVs in mainland China and certain IoT products in the overseas markets, partially offset by the increased revenue from our tablets and smart large home appliance category in mainland China.

Revenue from smart TVs and laptops decreased by 13.3% from RMB27.4 billion for the year ended December 31, 2021 to RMB23.7 billion for the Reporting Period, mainly due to the decrease in ASP of smart TVs and laptops caused by the decreased price of key components. Despite a 5.6% decline in global smart TV shipments, our global smart TV shipments grew to 12.4 million units, an increase of 0.6% year-over-year, once again outperforming the market.

MANAGEMENT DISCUSSION AND ANALYSIS

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 over 40% year-over-year. Revenue from our tablets had strong growth momentum with full-year shipments increasing over 160% year-over-year in mainland China.

Internet services

Revenue from our internet services segment increased by 0.4% from RMB28.2 billion for the year ended December 31, 2021 to RMB28.3 billion for the Reporting Period, mainly due to the increase in revenue from our TV value-added services, advertising business and gaming business, partially offset by the decreased revenue from fintech business. The overseas internet services revenue increased by 35.2% from RMB5.0 billion for the year ended December 31, 2021 to RMB6.8 billion for the Reporting Period, driven by the continued expansion of our overseas internet user base.

Others

Other revenue decreased by 24.6% from RMB6.2 billion for the year ended December 31, 2021 to RMB4.7 billion for the Reporting Period, primarily due to the decrease in revenue from the sales of buildings.

Cost of Sales

Our cost of sales decreased by 13.9% from RMB270.0 billion for the year ended December 31, 2021 to RMB232.5 billion for the Reporting Period. The following table sets forth our cost of sales by line of business for the Reporting Period and the year ended December 31, 2021:

	Year ended December 31,			
	2022		2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**152,248.4**	**54.4%**	184,007.9	56.0%
IoT and lifestyle products	**68,296.4**	**24.4%**	73,888.6	22.5%
Internet services	**7,974.4**	**2.8%**	7,316.6	2.2%
Others	**3,947.6**	**1.4%**	4,835.1	1.6%
Total cost of sales	**232,466.8**	**83.0%**	270,048.2	82.3%

Smartphones

Cost of sales related to our smartphones segment decreased by 17.3% from RMB184.0 billion for the year ended December 31, 2021 to RMB152.2 billion for the Reporting Period, mainly due to the decrease in our smartphone shipments, partially offset by an increase in inventory impairment provision.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment decreased by 7.6% from RMB73.9 billion for the year ended December 31, 2021 to RMB68.3 billion for the Reporting Period, primarily due to the decreased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment increased by 9.0% from RMB7.3 billion for the year ended December 31, 2021 to RMB8.0 billion for the Reporting Period, primarily due to the increase in cost from our advertising business, TV value-added services and gaming business, partially offset by the decrease in cost from our fintech business.

Others

Cost of sales in our others segment decreased by 18.4% from RMB4.8 billion for the year ended December 31, 2021 to RMB3.9 billion for the Reporting Period, primarily due to the decreased sales of buildings.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 18.3% from RMB58.3 billion for the year ended December 31, 2021 to RMB47.6 billion for the Reporting Period. Our gross margin decreased from 17.7% for the year ended December 31, 2021 to 17.0% for the Reporting Period.

The gross profit margin from our smartphones segment decreased from 11.9% for the year ended December 31, 2021 to 9.0% for the Reporting Period, primarily due to enhanced efforts to clear our inventories, as well as US dollar appreciation in 2022 and an increase in inventory impairment provision.

The gross profit margin from our IoT and lifestyle products segment increased from 13.1% for the year ended December 31, 2021 to 14.4% for the Reporting Period, mainly due to the improvement in gross profit margin of smart TVs due to the decreased price of key components, as well as that of smart large home appliances, especially smart air conditioners.

MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit margin from our internet services segment decreased from 74.1% for the year ended December 31, 2021 to 71.8% for the Reporting Period, mainly due to the decline of gross profit margin from our advertising business.

Research and Development Expenses

Our research and development expenses increased by 21.7% from RMB13.2 billion for the year ended December 31, 2021 to RMB16.0 billion for the Reporting Period, primarily due to the increased expenses in smart EV and other new initiatives.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 1.6% from RMB21.0 billion for the year ended December 31, 2021 to RMB21.3 billion for the Reporting Period, primarily due to the increase in compensation for selling and marketing personnel, partially offset by the decrease of logistics expenses. Promotion and advertising expenses remained stable at RMB7.2 billion for the Reporting Period and the year ended December 31, 2021.

Administrative Expenses

Our administrative expenses increased by 7.9% from RMB4.7 billion for the year ended December 31, 2021 to RMB5.1 billion for the Reporting Period, primarily due to the increase in compensation for administrative personnel and the credit loss allowance for receivables.

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 RMB8.1 billion for the year ended December 31, 2021 to a loss of RMB1.7 billion for the Reporting Period, primarily due to the fair value loss of listed equity investments.

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 net profits of RMB275.0 million for the year ended December 31, 2021 to net losses of RMB400.1 million for the Reporting Period, primarily due to the dilution gains from our certain investees in 2021, such as the dilution gain from Kingsoft Cloud.

Other Income

Our other income increased by 37.3% from RMB0.8 billion for the year ended December 31, 2021 to RMB1.1 billion for the Reporting Period, primarily due to the increase of government grants.

Other Losses, Net

Our other net losses decreased by 46.9% from RMB2.6 billion for the year ended December 31, 2021 to RMB1.4 billion in the Reporting Period. This is mainly due to less impairment of listed investments accounted for using the equity method, partially offset by an increase in foreign exchange losses for the Reporting Period.

Finance Income/(Costs), Net

Our net finance income/(costs) changed from a net cost of RMB1.6 billion for the year ended December 31, 2021 to a net income of RMB1.1 billion for the Reporting Period, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses decreased by 72.1% from RMB5.1 billion for the year ended December 31, 2021 to RMB1.4 billion for the Reporting Period, primarily due to the decrease of taxable income for the Reporting Period.

Profit for the Year

As a result of the foregoing, we had a profit of RMB2.5 billion for the Reporting Period, compared with a profit of RMB19.3 billion for the year ended December 31, 2021.

Adjusted Net Profit

We had adjusted net profit of RMB8.5 billion for the Reporting Period, compared with adjusted net profit of RMB22.0 billion for the year ended December 31, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated Statement of Cash Flows

	Year ended December 31,	
	2022	2021
	(RMB in millions)	
Net cash (used in)/generated from operating activities[1]	(4,389.7)	9,785.3
Net cash generated from/(used in) investing activities	15,548.8	(45,007.9)
Net cash (used in)/generated from financing activities[1]	(7,854.8)	4,498.7
Net increase/(decrease) in cash and cash equivalents	3,304.3	(30,723.9)
Cash and cash equivalents at beginning of year	23,511.6	54,752.4
Effects of exchange rate changes on cash and cash equivalents	791.4	(516.9)
Cash and cash equivalents at end of year	27,607.3	23,511.6

Note:

(1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments resulting from the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar Bank, the net cash used in operating activities was RMB6.8 billion for the Reporting Period, and the net cash generated from operating activities was RMB6.7 billion for the year ended December 31, 2021, respectively. Excluding the change of borrowings for the fintech business, the net cash used in financing activities was RMB3.8 billion for the Reporting Period and the net cash generated from financing activities was RMB6.5 billion for the year ended December 31, 2021, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this annual report.

Net Cash 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 profit before income tax adjusted by non-cash items and changes in working capital.

For the Reporting Period, our net cash used in operating activities amounted to RMB4.4 billion, representing cash used in operations of RMB1.0 billion plus income tax paid of RMB3.4 billion. Cash used in operations was primarily attributable to our profit before income tax of RMB3.9 billion, adjusted by provision for impairment of inventories of RMB7.8 billion, share-based compensation of RMB2.5 billion, a decrease in trade receivables of RMB4.3 billion and a decrease in prepayments and other receivables of RMB1.4 billion, offset by a decrease in trade payables of RMB20.5 billion.

Net Cash Generated From Investing Activities

For the Reporting Period, our net cash generated from investing activities was RMB15.5 billion, which was primarily attributed to the net changes of short-term investments measured at fair value through profit or loss of RMB19.8 billion, as well as the net changes of short-term bank deposits of RMB10.2 billion, partially offset by the net changes of long-term bank deposits of RMB8.0 billion and the net changes of long-term investments measured at fair value through profit or loss of RMB4.9 billion.

Net Cash Used In Financing Activities

For the Reporting Period, our net cash used in financing activities was RMB7.9 billion, which was primarily attributed to the net changes of borrowings and payables under letter of credit of RMB2.8 billion and RMB1.0 billion, respectively, as well as the payments for shares repurchase of RMB2.4 billion and the payments for lease liabilities of RMB1.3 billion.

Capital Expenditure

	Year ended December 31,	
	2022	2021
	(RMB in millions)	
Capital expenditures	**5,799.6**	7,169.3
Placement of long-term investments[1]	**7,716.0**	13,098.5
Total	**13,515.6**	20,267.8

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 years ended December 31, 2022 and 2021 to the nearest measures prepared in accordance with IFRS.

	Year Ended December 31, 2022						
		Adjustments					
	As reported	Share-based compensation	Net fair value changes on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Changes of value of financial liabilities to fund investors[3]	Income tax effects[4]	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the year	2,502,568	2,467,224	4,405,700	144,271	(583,862)	(417,894)	8,518,007
Net margin	0.9%						3.0%

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

Notes:

(1) Primarily 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Hardware Business Net Margin

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

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

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

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

Note:

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

Liquidity, Financial Resources and Gearing

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

Other than the funds raised through our Global Offering in July 2018, the 2020 Placing and Subscription and the issuance of debt securities as described in "Issuance of Debt Securities" below, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB23.5 billion and RMB27.6 billion as of December 31, 2021 and December 31, 2022, respectively.

Note:

The cash resources which the Group considered in cash management including but not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss, short-term investments measured at amortized cost, long-term bank deposits and other investments included in long-term investments measured at fair value through profit or loss. As of December 31, 2022, the aggregate amount of cash resources of the Group was RMB94.3 billion.

Our gearing ratio was -31.1% and -35.6%, which represented a net cash position, as of December 31, 2021 and December 31, 2022, respectively. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings less our cash and cash equivalents, restricted cash and short-term bank deposits. Total capital is calculated as total equity plus net debt.

Issuance of Debt Securities

On April 29, 2020, Xiaomi Best Time International Limited, a wholly owned subsidiary of the Company, issued US$600 million 3.375% senior notes due 2030 unconditionally and irrevocably guaranteed by the Company (the "**2030 Notes**"). 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 December 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 (the "**Green Bonds**"), both of which were unconditionally and irrevocably guaranteed by the Company. For further details of the 2031 Bonds and Green Bonds, please refer to the announcements of the Company published on July 6, 2021, July 8, 2021, July 14, 2021 and July 15, 2021.

Borrowings

As of December 31, 2021 and December 31, 2022, we had total borrowings of RMB26.2 billion and RMB23.6 billion, respectively.

Off-Balance Sheet Commitments and Arrangements

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

MANAGEMENT DISCUSSION AND ANALYSIS

Future Plans for Material Investments and Capital Assets

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

Investments Held

As of December 31, 2022, we had invested in more than 420 companies and other long-term investments with an aggregate book value of RMB63.9 billion, an increase of 5.9% year-over-year. In 2022, we recorded a net gain on disposal of investments (after tax) of RMB1.2 billion. The total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on December 31, 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 RMB65.2 billion as of December 31, 2022.

The Group did not make or hold any significant investments (including any investment in an investee company with a value of 5% or more of the Group's total assets as of December 31, 2022) during the Reporting Period.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the Reporting Period, we did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As of December 31, 2022, we had 32,543 full-time employees, 29,967 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. As of December 31, 2022, our research and development personnel, totaling 16,171 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of December 31, 2022, 12,818 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the Reporting Period were RMB16.6 billion, representing an increase of 20.2% from the year ended December 31, 2021 of RMB13.8 billion.

Foreign Exchange Risk

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

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

Pledge of Assets

As of December 31, 2022, we pledged a restricted deposit of RMB4.0 billion, compared with RMB4.3 billion as of December 31, 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 December 31, 2022 and December 31, 2021. Further details of the contingencies are set out in Note 37 to the financial information.

DIRECTOR'S REPORT

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

Principal Activities

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

Business Review

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

Subsidiaries

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

Property and Equipment

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

Bank Loans and Borrowings

Particulars of bank loans and other borrowings of the Group as of December 31, 2022 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 34 to the consolidated financial statements.

Donation

During the Reporting Period, the Group made charitable donations of approximately RMB7.4 million.

Issuance of Debt Securities

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

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

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

Five-Year Financial Summary

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

Reserves

As of December 31, 2022, the Company had distributable reserves amounting to RMB60,673.9 million. Details of the movements in the reserves of the Company during the Reporting Period are set out in Note 41(b) to the consolidated financial statements.

DIRECTOR'S REPORT

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

During the Reporting Period and up to the Latest Practicable Date, the Company repurchased a total of 235,248,000 class B ordinary shares (the "**Class B Shares**") of the Company on The Stock Exchange at an aggregate consideration of approximately HK$2,756,518,651 (the "**Shares Repurchased**"). Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Class B Shares Repurchased	Price paid per share Highest (HK$)	Price paid per share Lowest (HK$)	Aggregate Consideration (HK$)
2022				
January	14,295,000	18.64	17.70	261,322,614
March	35,209,000	14.60	13.46	498,281,463
April	37,744,000	13.82	12.26	498,768,037
August	26,500,000	11.50	10.90	297,458,009
September	77,900,000	11.38	8.74	783,888,205
October	27,600,000	9.46	8.32	243,760,413
December	16,000,000	11.16	10.46	173,039,910
Total	235,248,000			2,756,518,651

As at the Latest Practicable Date, the number of Class B Shares in issue was reduced by 235,248,000 as a result of the cancellations of the Shares Repurchased. Upon cancellation of the Shares Repurchased, the WVR beneficiaries of the Company, simultaneously reduced their WVR in the Company proportionately by way of converting their class A ordinary shares (the "**Class A Shares**") into Class B Shares on a one-to-one ratio pursuant to 8A.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under 8A.13 and 8A.15 of the Listing Rules.

The Class B 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.

The Class B Shares repurchased in March 2022 and April 2022 were subsequently cancelled on June 10, 2022. A total of 13,488,051 Class A Shares were converted into Class B Shares on a one-to-one ratio on June 10, 2022, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 12,147,469 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 1,340,582 Class A Shares.

The Class B Shares repurchased in August 2022, September 2022 and October 2022 were subsequently cancelled on October 28, 2022. A total of 24,341,769 Class A Shares were converted into Class B Shares on a one-to-one ratio on October 28, 2022, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 21,922,431 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 2,419,338 Class A Shares.

The Class B Shares repurchased in December 2022 was subsequently cancelled on March 22, 2023. A total of 2,937,275 Class A Shares were converted into Class B Shares on a one-to-one ratio on March 22, 2023, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 2,645,338 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 291,937 Class A Shares.

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

Share Schemes

The Company has three existing share schemes, namely the Pre-IPO ESOP, the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme. Each of the two subsidiaries of the Company, Xiaomi Finance and Pinecone International, has adopted two share options schemes, respectively, which are XMF Share Option Scheme I, XMF Share Option Scheme II, Pinecone Share Option Scheme I and Pinecone Share Option Scheme II. Xiaomi EV, a subsidiary of the Company, has adopted Xiaomi EV Share Option Scheme. None of Xiaomi Finance, Pinecone International or Xiaomi EV is a principal subsidiary of the Company as defined in Rule 17.14 of the Listing Rules. From January 1, 2023, the Company will rely on the transitional arrangements provided for the existing share schemes and will comply with the new Chapter 17 accordingly (effective from January 1, 2023).

363,148,688 new Shares, representing approximately 1.8% of the weighted average number of the Class B Shares in issue of the Company, may be issued in respect of all options and awards granted during the Reporting Period to eligible participants pursuant to the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme.

1. Pre-IPO ESOP

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

(a) Purpose

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

DIRECTOR'S REPORT

(b) **Eligible participants**

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

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

The overall limit on the number of Shares which may be issued pursuant to the Pre-IPO ESOP is 251,307,455 Class B Shares, which was subsequently adjusted by the Board to 2,512,694,900 Class B Shares (adjusted after taking into account the share subdivision which took place on June 17, 2018). No further Pre-IPO Awards would be granted under the Pre-IPO ESOP after listing.

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

There is no maximum entitlement of each participant.

(e) **Vesting period**

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

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

(f) **Consideration and purchase price**

Pursuant to the Pre-IPO ESOP, there is no amount payable on application or acceptance of the award and no purchase price of Shares awarded.

(g) **Exercise price and payment**

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

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

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

The term of the Pre-IPO ESOP commenced on August 24, 2012 and has expired on the tenth anniversary of the above starting date. Upon expiry of the Pre-IPO ESOP, any Pre-IPO Awards that are outstanding shall remain in force according to the terms of the Pre-IPO ESOP and the applicable award agreement.

Given that no further Pre-IPO Awards would be granted under the Pre-IPO ESOP, the outstanding number of options and RSUs would be equivalent to the maximum number of new Shares available for issue under the Pre-IPO ESOP. As of the Latest Practicable Date, outstanding options and RSUs representing 267,673,823 underlying Shares, being approximately 1.07% of the issued share capital of the Company, were granted to eligible participants pursuant to the Pre-IPO ESOP. Except for Liu De, no share options and RSUs had been granted to the Directors and other connected persons.

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

					Number of share options and RSUs					
Grantees	Role	Date of grant	Vesting Period[1]	Exercise price (US$)	Outstanding as of January 1, 2022	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as of December 31, 2022	Weighted average closing price of the Share immediately before the date of exercise during the year
Director										
Liu De	Executive Director	1/1/2018	5–10 years	0–0.10225	5,385,220	–	–	–	5,385,220	N/A
Category subtotal:					5,385,220	–	–	–	5,385,220	
Other grantees by category										
Employee Participants		4/1/2010 to 6/14/2018	1–10 years	0–0.344	393,733,537	(79,409,578)	–	(10,609,166)	303,714,793	12.62
Service Providers		1/1/2012 to 4/1/2018	4–5 years	0–0.344	1,788,070	–	–	–	1,788,070	N/A
Category subtotal:					395,521,607	(79,409,578)	–	(10,609,166)	305,502,863	
Total:					**400,906,827**	**(79,409,578)**	–	**(10,609,166)**	**310,888,083**	

(1). The exercise period of the options granted under the Pre-IPO ESOP shall commence from the date on which the relevant options become vested and end on the 10th anniversary of the grant date, subject to the terms of the Pre-IPO ESOP and the share option award agreement signed by the grantee.

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

DIRECTOR'S REPORT

2. Post-IPO Share Option Scheme

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

(a) Purpose

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

(b) Eligible participants

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

(c) Maximum number of shares available for issue

The total number of Class B Shares which may be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other schemes is 1,568,094,311 Class B Shares, being no more than 10% of the Class B Shares in issue on the Listing Date.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Class B Shares in issue from time to time.

As of January 1, 2022, the total number of Shares available for grant under the Post-IPO Share Option Scheme was 1,446,194,311 Shares.

As of December 31, 2022, the total number of Shares available for grant under the Post-IPO Share Option Scheme was 1,447,394,311 Shares, representing 5.8% of the issued share capital of the Company.

(d) Maximum entitlement of each participant

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

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

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

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

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

(f) **Exercise price**

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

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

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

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

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

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

DIRECTOR'S REPORT

As of December 31, 2022, a total of 233,500,000 options had been granted pursuant to the Post-IPO Share Option Scheme since its adoption. The total number of Class B Shares available for grant under the Post-IPO Share Option Scheme is 1,447,394,311 Class B Shares, representing approximately 5.8% of the issued share capital of the Company as at the Latest Practicable Date.

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

				Number of share options								
Grantees by category	Date of grant	Vesting Period	Exercise Period	Outstanding as of January 1, 2022	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding as of December 31, 2022	Exercise Price (HK$)	Fair value of options at the date of grant during the year and the accounting standard and policy adopted	Weighted average closing price of the Shares immediately during the year before the date of exercise during the year
Employee Participants												
	7/2/2020	4 years	7/2/2021 to 7/1/2030	3,000,000	–	–	–	–	3,000,000	13.60	N/A	N/A
	9/4/2020	4-10 years	9/4/2021 to 9/3/2030	106,400,000	–	–	(1,200,000)	–	105,200,000	24.50	N/A	N/A
	10/9/2020	4 years	10/9/2021 to 10/8/2030	6,250,000	–	–	–	–	6,250,000	21.04	N/A	N/A
	1/6/2021	4 years	1/6/2022 to 1/5/2031	6,250,000	–	–	–	–	6,250,000	33.90	N/A	N/A
Total:				121,900,000	–	–	(1,200,000)	–	120,700,000			

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

3. Post-IPO Share Award Scheme

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

(a) Purpose

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

(b) Eligible participants

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

(c) Maximum number of shares available for award

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

As of January 1, 2022, 670,476,810 Award Shares were available for grant under the Post-IPO Share Award Scheme. During the Reporting Period, 366,319,134 Award Shares were granted to eligible participants pursuant to the Post-IPO Share Award Scheme and 82,869,840 Award Shares were forfeited pursuant to the Post-IPO Share Award Scheme. It follows that, as of December 31, 2022, 387,027,516 Award Shares were available for grant under the Post-IPO Share Award Scheme.

(d) Maximum number of new Shares available for issue

The total number of new Class B Shares issued and may be issued pursuant to the Post-IPO Share Award Scheme will not exceed 1,118,806,541 Shares (the "**Scheme Mandate**").

As of January 1, 2022, 1,030,200,637 new Shares were available for issue under the Scheme Mandate. During the Reporting Period, 73,563,088 new Shares were issued pursuant to the Post-IPO Share Award Scheme. It follows that, as of December 31, 2022 and the Latest Practicable Date, 956,637,549 new Shares (representing approximately 3.8% of the issued share capital of the Company as of the Latest Practicable Date) and 904,878,641 new Shares (representing approximately 3.6% of the issued share capital of the Company as of the Latest Practicable Date) were available for issue under the Scheme Mandate, respectively.

DIRECTOR'S REPORT

(e) Maximum entitlement of each participant

There is no maximum entitlement of each participant.

(f) Restrictions on grants

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

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

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

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

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

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

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

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

(g) Consideration and purchase price

Pursuant to the Share Award Scheme, there is no amount payable on application or acceptance of the Award and no purchase price of Shares awarded.

(h) Vesting and lapse

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

(i) Rights attached to the Award Shares

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

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

(j) Duration and Termination

The Share Award Scheme shall terminate on the earlier of:

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

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

The remaining life of the Post-IPO Share Award Scheme is approximately over 5 years.

DIRECTOR'S REPORT

Details of the Award Shares granted under the Share Award Scheme (to be satisfied by new Shares) and their movements during the Reporting Period are as follows:

				Number of award shares								
Grantees by category	Date of grant	Vesting Period	Purchase price	Unvested Award Shares as of January 1, 2022	Granted during the year	Vested during the year	Cancelled during the year	Lapsed during the year	Unvested Award Shares as of December 31, 2022	Closing price of Shares immediately before the grant during the year	Fair value of Award Shares at the date of grant during the year and the accounting standard and policy adopted[(1)]	Weighted average closing price of the Share immediately before the date of vesting during the year
Employee Participants												
	4/1/2019	4-10 years	Nil	12,236,070	–	(2,725,295)	–	(2,061,207)	7,449,568	N/A	N/A	14.35
	7/19/2019	1 year	Nil	–	–	–	–	–	–	N/A	N/A	N/A
	9/4/2019	4-5 years	Nil	11,974,852	–	(5,521,638)	–	(1,802,335)	4,650,879	N/A	N/A	13.68
	11/28/2019	4 years	Nil	7,461,765	–	(3,271,928)	–	(1,050,658)	3,139,179	N/A	N/A	9.18
	1/6/2020	4 years	Nil	30,461,013	–	(10,194,335)	–	(4,012,177)	16,254,501	N/A	N/A	17.53
	4/1/2020	1-4 years	Nil	15,652,314	–	(5,336,171)	–	(3,569,524)	6,746,619	N/A	N/A	13.67
	7/2/2020	4-5 years	Nil	13,778,736	–	(3,322,951)	–	(1,625,558)	8,830,227	N/A	N/A	13.82
	9/4/2020	4-10 years	Nil	14,000,000	–	(3,000,000)	–	–	11,000,000	N/A	N/A	11.16
	10/10/2020	4-5 years	Nil	4,565,031	–	(2,740,804)	–	(105,759)	1,718,468	N/A	N/A	9.26
	1/6/2021	4 years	Nil	13,175,920	–	(3,658,435)	–	(971,221)	8,546,264	N/A	N/A	17.16
	7/2/2021	1-4 years	Nil	66,153,603	–	(15,387,509)	–	(10,545,865)	40,220,229	N/A	N/A	13.67
	7/5/2021	4-10 years	Nil	116,350,000	–	(4,124,215)	–	(12,962,500)	99,263,285	N/A	N/A	13.65
	11/24/2021	1-10 years	Nil	52,886,975	–	(11,368,450)	–	(7,786,205)	33,732,320	N/A	N/A	9.58
	3/23/2022	1-10 years	Nil	–	172,535,787	(1,935,159)	–	(21,135,997)	149,464,631	14.20	14.78	11.35
	5/20/2022	1-5 years	Nil	–	53,763,707	(463,831)	–	(6,373,704)	46,926,172	11.08	11.74	11.23
	8/21/2022	4 years	Nil	–	92,262,344	(74,181)	–	(7,690,626)	84,497,537	11.66	11.28	9.16
	11/24/2022	4-5 years	Nil	–	42,787,118	(114,924)	–	(855,944)	41,816,250	9.80	9.45	9.08
Category subtotal:				358,696,279	361,348,956	(73,239,826)	–	(82,549,280)	564,256,129			

(1): The fair value of the Award Shares granted during the year ended December 31, 2022 were determined based on the market value of the Shares at the respective grant dates.

				Number of award shares								
Grantees by category	Date of grant	Vesting Period	Purchase price	Unvested Award Shares as of January 1, 2022	Granted during the year	Vested during the year	Cancelled during the year	Lapsed during the year	Unvested Award Shares as of December 31, 2022	Closing price of Shares immediately before the grant during the year	Fair value of Award Shares at the date of grant during the year and the accounting standard and policy adopted[1]	Weighted average closing price of the Share immediately before the date of vesting during the year
Service Providers												
	7/19/2019	1 year	Nil	–	–	–	–	–	–	N/A	N/A	N/A
	9/4/2019	4 years	Nil	–	–	–	–	–	–	N/A	N/A	N/A
	1/6/2020	4 years	Nil	16,548	–	(5,516)	–	–	11,032	N/A	N/A	17.92
	4/1/2020	1-4 years	Nil	7,061	–	(2,353)	–	–	4,708	N/A	N/A	17.92
	7/2/2020	4 years	Nil	3,121	–	(1,040)	–	–	2,081	N/A	N/A	13.94
	10/10/2020	4 years	Nil	138,636	–	(27,784)	–	(51,563)	59,289	N/A	N/A	9.59
	1/6/2021	4 years	Nil	38,975	–	(9,739)	–	–	29,236	N/A	N/A	17.92
	7/2/2021	4 years	Nil	532,699	–	(233,483)	–	(5,268)	293,948	N/A	N/A	14.04
	11/24/2021	4 years	Nil	261,142	–	(32,633)	–	(129,727)	98,782	N/A	N/A	9.08
	3/23/2022	4 years	Nil	–	855,537	(3,130)	–	(88,927)	763,480	14.20	14.78	13.94
	5/20/2022	4 years	Nil	–	532,779	(7,584)	–	–	525,195	11.08	11.74	9.08
	8/21/2022	4 years	Nil	–	375,659	–	–	(45,075)	330,584	11.66	11.28	N/A
	11/24/2022	4 years	Nil	–	35,757	–	–	–	35,757	9.80	9.45	N/A
Category subtotal:				998,182	1,799,732	(323,262)	–	(320,560)	2,154,092			
Total:				359,694,461	363,148,688	(73,563,088)	–	(82,869,840)	566,410,221			

(1): The fair value of the Award Shares granted during the year ended December 31, 2022 were determined based on the market value of the Shares at the respective grant dates.

DIRECTOR'S REPORT

Details of the outstanding Award Shares granted under the Post-IPO Share Award Scheme (to be satisfied by existing Shares) are as follows:

Grantees by category	Date of Grant	Vesting Period	Purchase price	Unvested Award Shares as of January 1, 2022	Granted during the year	Vested during the year	Cancelled during the year	Lapsed during the year	Unvested Award Shares as of December 31, 2022	Closing price of Shares immediately before the grant during the year	Fair value of awards at the date of grant during the year and the accounting standard and policy adopted[1]	Weighted average closing price of the Share immediately before the date of vesting during the year
Grantees in aggregate												
	1/6/2021	4 years	Nil	17,874	–	(4,468)	–	–	13,406	N/A	N/A	17.92
	11/24/2021	4 years	Nil	11,492	–	(2,873)	–	–	8,619	N/A	N/A	9.08
	3/23/2022	4-10 years	Nil	–	1,510,618	–	–	–	1,510,618	14.20	14.78	N/A
	5/20/2022	3-4 years	Nil	–	1,051,715	(12,928)	–	–	1,038,787	11.08	11.74	9.08
	8/21/2022	4 years	Nil	–	110,433	–	–	–	110,433	11.66	11.28	N/A
	11/24/2022	4 years	Nil	–	497,680	–	–	–	497,680	9.80	9.45	N/A
Total:				29,366	3,170,446	(20,269)	–	–	3,179,543			

(1): The fair value of the Award Shares granted during the year ended December 31, 2022 were determined based on the market value of the Shares at the respective grant dates.

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

Equity-Linked Agreements

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

Directors and Senior Management

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

Executive Directors

Lei Jun
Lin Bin
Liu De

Non-Executive Director

Liu Qin

Independent Non-Executive Directors

Chen Dongsheng
Wong Shun Tak
Tong Wai Cheung Timothy

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

Biographical Details and Other Information of the Directors

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

Lei Jun (雷軍), aged 53, is an executive Director, the Founder, the Chairman, the CEO of the Company, and the chief executive officer of the smart electric vehicle business. He is also a member of the Remuneration Committee. Lei Jun is overall responsible for the Company's strategy, company culture and key products. He oversees the senior management team. Lei Jun currently holds directorships in various subsidiaries, Consolidated Affiliated Entities and operating entities of the Group.

In 2000, Lei Jun founded joyo.com, an online retailing platform, which was acquired by Amazon in 2004. Meanwhile, as an angel investor, Lei Jun has also invested in various innovative businesses including JOYY Inc. and UCWeb. Lei Jun is also a renowned technology entrepreneur in mainland China. Lei Jun joined Kingsoft Corporation Limited (HKEx Stock Code: 3888) in 1992 and has held various senior positions in Kingsoft, including as the chairman of the board since July 2011, non-executive director since August 2008 and the chief executive officer between 1998 and December 2007. From December 2011, Lei Jun has served as a director of Beijing Kingsoft Office Software, Inc. (Sci-Tech Innovation Board of the Shanghai Stock Exchange ticker: 688111). From January 2012 and April 2015, Lei Jun has been the non-executive director and the Chairman of Kingsoft Cloud Holdings Limited (HKEx Stock Code: 3896; NASDAQ ticker: KC) respectively.

Lei Jun graduated from Wuhan University (武漢大學) in July 1991 and received a Bachelor of Science in Computer Science.

DIRECTOR'S REPORT

Lin Bin (林斌), aged 55, is an executive Director, a Co-founder and the Vice Chairman of the Board. He is also a member of the Nomination Committee. Lin Bin currently holds directorships in various subsidiaries of the Group.

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

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

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

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

Liu De (劉德), aged 49, is an executive Director, a Co-Founder, Senior Vice President and Minister of the Group Leadership Management Department, is currently responsible for the recruitment, promotion, training and evaluation of the middle and senior management of the Group, as well as the organizational structure design and approval procedures of each department. Mr. Liu is a director of various members of the Group. Mr. Liu is also a director of Ninebot Limited (Shanghai Stock Exchange Stock Code: 689009), Viomi Technology Co., Ltd. (NASDAQ ticker: VIOT) and Zepp Health Corporation (NYSE ticker: ZEPP). In October 2002, Liu De co-founded Beijing Xinfengrui Industrial Design Co., Ltd. (北京新鋒銳工業設計公司) and served as its executive director until 2007.

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

Liu Qin (劉芹), former name: Liu Ya (劉雅), aged 50, is a non-executive Director and a member of the Audit Committee. Liu Qin became a Director of the Company in May 2010, and he currently holds directorships in various subsidiaries of the Company. Liu Qin co-founded and has served as managing director of 5Y Capital (formerly known as Morningside Venture Capital Limited) since June 2007. The funds under 5Y Capital's management had been the earliest investors of the Group. Before co-founding 5Y Capital, Liu Qin served various roles including as a business development director for investment at Morningside IT Management Services (Shanghai) Co. Ltd. (晨興信息科技諮詢(上海)有限公司) from July 2000 to November 2008. Since June 2008, Liu Qin has been a director of JOYY Inc. (NASDAQ ticker: YY). Since December 2014, Liu Qin has been a director of Agora, Inc. (NASDAQ ticker: API). Liu Qin has also served as a non-executive director of XPeng Inc. (NYSE ticker: XPEV, SEHK stock code: 9868) since September 12, 2019.

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

Chen Dongsheng (陳東升), aged 65, has served as an independent non-executive Director since June 2018. He also currently serves the chairman of both the Remuneration Committee and the Corporate Governance Committee, and a member of the Audit Committee. Chen Dongsheng founded Taikang Insurance Group Inc. (泰康保險集團股份有限公司) (formerly known as Taikang Life Insurance Co., Ltd (泰康人壽保險股份有限公司)) ("**Taikang**") in 1996. He serves the chairman and CEO of Taikang and holds various directorships within the Taikang group. Prior to this, Chen Dongsheng served as the chairman and the general manager of China Guardian Auctions Co., Ltd (中國嘉德國際拍賣有限公司) from May 1993. Prior to this, Chen Dongsheng worked as the deputy editor of the Management World (monthly), published by the Development Research Center of the State Council of China.

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

Chen Dongsheng received a Bachelor's degree in Political Economics in July 1983, and a PhD in Political Economics in January 1999, both from Wuhan University (武漢大學).

Wong Shun Tak (王舜德), aged 62, currently serves as an independent non-executive Director, the chairman of the Audit Committee, and a member of the Remuneration Committee, Corporate Governance Committee and Nomination Committee. In 2014, Wong Shun Tak co-founded and had concurrently served as the CFO of Rokid Corporation Ltd. Wong Shun Tak has served as the independent non-executive director, chairman of the nomination committee, chairman of the remuneration committee and member of the audit committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) since July 2014. Wong Shun Tak served as an executive director and CFO of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from October 2011 to July 2012, and also acted as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from April 2007 to September 2011. Wong Shun Tak has served as an independent non-executive director and the chairman of the audit committee of the Company since June 2018. Mr. Wong currently serves as an independent non-executive director of several subsidiaries of the Company.

DIRECTOR'S REPORT

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

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

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

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

Professor Tong Wai Cheung Timothy (唐偉章) ("**Prof. Tong**"), aged 69, is an independent non-executive Director, the chairman of the Nomination Committee and a member of the Corporate Governance Committee. He joined the Group in August 2019.

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

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

Biographical Details of Senior Management

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

Lei Jun (雷軍), aged 53, is the Founder, the CEO of the Company, the Chairman and an executive Director, and the chief executive officer of the smart electric vehicle business. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Lin Bin (林斌), aged 55, is a Co-founder, the Vice Chairman of the Board and an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Lu Weibing (盧偉冰), aged 47, is a Partner, President of the Group, and President of the International Business Department of the Group. He is responsible the Smartphone Department, the Ecosystem Department, the Major Appliance Department, the China Region and the India Region.

Lu Weibing joined the Group in 2019 and has since been in charge of China Region Sales and the International Department, as well as branding, product planning, manufacturing, and sales & marketing of Redmi. Relying on years of marketing experience and profound insights, he led the team and formulated the strategic goals and business directions, and achieved very positive outcomes. Prior to this, Mr. Lu had rich working experience in the telecommunication industry. He participated in the establishment of Shenzhen Chenyee Technology Co., Ltd. (深圳市誠壹科技有限公司) and served as the President of Shenzhen Gionee Communication Equipment Co., Ltd. (深圳市金立通信設備有限公司). He also worked as the General Manager (Overseas Business Department) at Tianyu Communication Equipment Co., Ltd. (北京天宇朗通通信設備有限公司) and General Sales Manager at KONKA Communication Co., Ltd. (康佳通信科技有限公司).

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

Liu De (劉德), aged 49, is a Co-Founder, Senior Vice President and Minister of the Group Leadership Management Department an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

DIRECTOR'S REPORT

Zhang Feng (張峰), aged 53, is a Partner, a Senior Vice President, and President of Major Appliance Department. Zhang Feng joined the Group in 2016 and since then has taken several leading roles in the smartphone supply chain, Group General Staff Department, Group Procurement Committee, and smart hardware business. Zhang Feng has more than 20 years of experience in the smartphone and telecommunications industry. Prior to joining the Group, Zhang Feng founded Jiangsu Zimi Electronic Technology Co., Ltd. (江蘇紫米電子技術有限公司), which became one of the Company's subsidiaries. He held various positions in the Inventec group between September 1993 and January 2012, including as the director of research and development and the general manager of the Inventec group's Nanjing branch. From 1991 to 1993, he was involved in the R&D of China's first analogue mobile handset — the YD9100.

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

Zeng Xuezhong (曾學忠), aged 49, is a Senior Vice President and President of Smartphone Department, responsible for the research and development and manufacturing of smartphones. He joined the Group in July 2020. Zeng Xuezhong served as senior vice president and president of ZTE Corporation (中興通訊) (SEHK Stock Code: 763; SZSE Stock Code: 000063) in mainland China, executive vice president of ZTE Corporation and chief executive officer of ZTE Terminal. He also held senior management positions such as global executive vice president of Tsinghua Unigroup (紫光集團有限公司), president of Unisplendour Corporation Limited (紫光股份有限公司), chief executive officer of UNISOC (紫光展銳（上海）科技有限公司), and chairman and general manager of Hatchip Communications (匯芯通信技術有限公司). As an excellent manager and expert in the communications industry, he has rich practical experience in corporate strategy, innovation and transformation.

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

Yan Kesheng (顏克勝), aged 52, is a Vice President, and General Manager of the Smart Manufacturing Department. He is responsible for system-level solutions for smart manufacturing. Yan Kesheng joined the Group in 2010, and was head of the Smartphone Hardware R&D Department. He fully engaged in processes including defining and manufacturing of smartphones and established several departments including the Smartphone Core Component Department, Group Quality Committee and Qinghe University. Before joining the Group, Yan Kesheng was a senior mechanical design manager at Star Shine Tech Co., Ltd. (星耀無線科技有限公司) from October 2008 to October 2010. From October 2002 to October 2008, Yan Kesheng worked as the chief structural design engineer and project leader at Motorola Technology Co., Ltd. (摩托羅拉科技有限公司). Before this, Yan Kesheng worked as a senior mechanical engineer and design team leader at Vtech Telecommunications Limited (偉易達通訊設備有限公司) from December 1998 to October 2002 and as the chief engineer at Hubei Yichang Nanyuan Vehicle Manufacturing Co., Ltd. (湖北宜昌南苑車輛製造有限公司) from July 1992 to November 1998.

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

Lam Sai Wai Alain (林世偉), aged 49, is a Vice President and the CFO of the Group, and the Chairman of Airstar Digital Technology. Prior to joining the Group in October 2020, Alain served as a Managing Director and Head of Technology, Media and Telecom in the Investment Banking and Capital Markets department of Credit Suisse between January 2016 and October 2020. Between July 1997 and December 2015, Alain worked at Morgan Stanley in various locations including London, New York, Menlo Park and Hong Kong.

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

Zhu Dan (朱丹), aged 45, is a Vice President and Vice President of R&D, Smartphone Department. Zhu Dan joined the Group in October 2010 and has been responsible for the Baseband Department, Product Department, Camera Department, and Display Department, all under the Smartphone Department of the Group. From 2016 to 2018, he was responsible for product planning in the Smartphone Product Department. From 2018 to 2021, he was responsible for R&D management and technical roadmap for the Camera Department and led the Camera Department to receive two DXOMARK first places. Prior to joining the Group, Zhu Dan was the R&D director of baseband department of Firebrand Technology Limited（Firebrand 科技有限公司）from May 2008 to October 2010 and an electronics engineer of Motorola North Asia Center（摩托羅拉北亞中心）from October 2003 to May 2008.

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

Wang Xiaoyan (王曉雁), aged 48, is a Vice President and President of the Group's China Region. Wang Xiaoyan joined the Group in 2019 and has been responsible for the E-Commerce Department, Sales and Operation Department, New Retail Department and Carrier Department of China Region. He has played a decisive role in the stabilization and development of the new retail business of the China Region. Prior to this, he had rich working experience in the telecommunications industry. He participated in the establishment of the mobile phone brand Xiaolajiao (小辣椒) and worked at Tianyu Communication Equipment Co., Ltd. (北京天宇朗通通信設備有限公司) and ZTE Corporation (中興通訊股份有限公司).

Wang Xiaoyan received a bachelor's degree in physics from Beijing Normal University in 1994 and an MBA degree from Renmin University of China (中國人民大學) in 1999.

DIRECTOR'S REPORT

Qu Heng (屈恒), aged 41, is a Vice President, Chairman of the Group Technology Committee, and Chairman of the Group Information Security and Privacy Committee. He is also responsible for the Group Quality Committee and the Group Procurement Committee.

Qu Heng joined the Group in 2010. He is one of the founding team members of the Group and has been in charge of, among others, MIUI, the software development of Mi Talk and router system engineering. Since 2018, he served as the General Manager of the Group's Ecosystem Department. Qu Heng has led the team to work on the smartphone-centred smart ecosystem layout and the implementation of the Group's "Smartphone x AIoT" strategy. Prior to this, Qu Heng had many years of working experience in software development and worked at Beijing Kingsoft Corporation Limited.

Qu Heng graduated from the department of computer science and engineering of Beihang University (北京航空航天大學) in 2003 and received a master's degree in computer science and engineering from Harbin Institute of Technology (哈爾濱工業大學) in 2013.

Ma Ji (馬驥), aged 44, is a Vice President and the General Manager of the Group's Internet Business Department. Ma Ji joined the Group in 2013 and has been in charge of, among others, the MIUI Security Center, MIUI products, and International Internet businesses. He led the team to facilitate the globalization of MIUI and the Group's Internet products and services. He has been the General Manager of the Group's Internet Business Department since December 2020, responsible for the Group's global Internet products and services, as well as commercialization. Prior to this, Ma Ji had many years of working experience in the mobile internet industry and worked at Qizhi Software (Beijing) Co., Ltd. (奇智軟件（北京）有限公司).

Ma Ji received a master's degree in computer science and engineering from Zhejiang University (浙江大學) in 2002.

Director's Service Contracts and Appointment Letters

1. Executive Directors

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

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

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

Each of Chen Dongsheng and Wong Shun Tak has entered into an appointment letter with our Company on June 10, 2021, and Tong Wai Cheung Timothy has entered into an appointment letter with our Company on August 23, 2022. The initial term for their appointment letters shall be three years from the date of their appointment (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under these appointment letters, each of the independent non-executive Directors will receive an annual director's fee of HK$600,000, which in each case has been recommended by the Remuneration Committee and approved by the Board with reference to the independent non-executive Director's qualifications, experience and responsibilities with the Company.

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

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

As of December 31, 2022, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

DIRECTOR'S REPORT

1. Interest in Shares

Name of Director or chief executive	Nature of interest[1]	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares[2]
Lei Jun[3]	Beneficiary, founder and settlor of a Trust(L)	ARK Trust (Hong Kong) Limited	4,132,759,253 Class A Shares	90.06%
			1,921,420,385 Class B Shares	9.44%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited	4,132,759,253 Class A Shares	90.06%
			1,769,953,713 Class B Shares	8.69%
	Interest in controlled corporations(L)	Smart Player Limited	59,221,630 Class B Shares	0.29%
	Interest in controlled corporations(L)	Team Guide Limited	92,245,042 Class B Shares	0.45%
Lin Bin[4]	Beneficial owner(L)		30,347,523 Class B Shares	0.15%
	Trustee of a trust(L)	Apex Star FT LLC	93,438,272 Class B Shares	0.46%
	Trustee of a trust(L)	Apex Star LLC	456,087,172 Class A Shares	9.94%
			1,699,360,643 Class B Shares	8.35%
	Interest in controlled corporations(L)	Bin Lin and Daisy Liu Family Foundation	60,686,600 Class B Shares	0.30%
Liu Qin[5]	Interest in controlled Corporations(L)	Morningside China TMT Fund I, L.P.	7 Class B Shares	0.00%
	Founder of Trust(L)		184,466,366 Class B Shares	0.91%
Liu De[9]	Beneficial owners (L)		10,000,000 Class B Shares	0.05%
	Founder of a trust(L)	Lofty Power International Limited	135,871,935 Class B Shares	0.67%
Chen Dongsheng[7]	Interest in controlled corporations(L)	Taikang Asset Management (Hong Kong) Company Limited	2,443,200 Class B Shares	0.01%

Notes:

(1) The letter "L" denotes a long position in the shares.

(2) The calculation is based on the total number of relevant class of Shares in issue as at December 31, 2022.

(3) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,132,759,253 Class A Shares and the 1,769,953,713 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO.

(4) Lin Bin directly holds 30,347,523 Class B Shares. Apex Star FT LLC is controlled by Bin Lin Family Trust. Accordingly, Lin Bin, as the trustee of Bin Lin Family Trust, is deemed to be interested in 93,438,272 Class B Shares held by Apex Star FT LLC under the SFO. Bin Lin and Daisy Liu Family Foundation is controlled by Lin Bin. Accordingly, Lin Bin is deemed to be interested in 60,686,600 Class B Shares held by Bin Lin and Daisy Liu Family Foundation under the SFO. Apex Star LLC is controlled by Bin Lin 2021 Trust. Accordingly, Lin Bin, as the trustee of Bin Lin 2021 Trust, is deemed to be interested in 1,699,360,643 Class B Shares held by Apex Star LLC under the SFO. Apex Star LLC is also controlled by Bin Lin 2021 A Trust. Accordingly, Lin Bin, as the trustee of Bin Lin 2021 A Trust, is deemed to be interested in 456,087,172 Class A Shares under the SFO.

(5) Liu Qin is entitled to exercise or control the exercise of one-third of the voting power at general meetings of TMT General Partner Ltd. and is therefore deemed to be interested in 7 Class B Shares in which TMT General Partner Ltd. is interested. TMT General Partner Ltd. controls Morningside China TMT GP, L.P., which controls Morningside China TMT Fund I, L.P. (the "**Morningside Funds**"). Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest. Liu Qin is deemed to be interested in 184,466,366 Class B Shares held by an entity controlled by the trustee of a discretionary trust, of which Liu Qin is a founder of the discretionary trust, under the SFO.

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

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

DIRECTOR'S REPORT

2. **Interest in associated corporations**

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

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as of December 31, 2022.

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

(3) Smart Mobile Holdings Limited, the holding company of the Company, is wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Lei Jun is the beneficial owner of the entire interest in Smart Mobile Holdings Limited, and is deemed to be interested in the 4,132,759,253 Class A Shares and 1,769,953,713 Class B Shares held by Smart Mobile Holdings Limited under the SFO. Therefore, Smart Mobile Holdings Limited, Sunrise Vision Holdings Limited and Parkway Global Holdings Limited are associated corporations of the Company.

Save as disclosed above, as of December 31, 2022, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Permitted Indemnity Provision

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

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

Directors' Rights to Acquire Shares or Debentures

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

Directors' Interests in Competing Business

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

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

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

DIRECTOR'S REPORT

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

As of December 31, 2022, so far as the Directors are aware, the following parties (other than our Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares[1]
Class A Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	4,132,759,253	90.06%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	4,132,759,253	90.06%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	4,132,759,253	90.06%
ARK Trust (Hong Kong) Limited[2]	Trustee	4,132,759,253	90.06%
Class B Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	1,769,953,713	8.69%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	1,829,175,343	8.98%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	1,829,175,343	8.98%
ARK Trust (Hong Kong) Limited[2]	Trustee	2,954,655,855	14.51%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2022.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,132,759,253 Class A Shares and the 1,769,953,713 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) 92,245,042 Class B Shares held by Team Guide Limited under the SFO. ARK Trust (Hong Kong) Limited is also a trustee for a number of trusts and therefore is deemed to be interested in the 1,033,235,470 Class B shares held by the trusts.

Save as disclosed above, as of December 31, 2022, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Contracts with Controlling Shareholders

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

Management Contracts

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

Connected Transactions

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

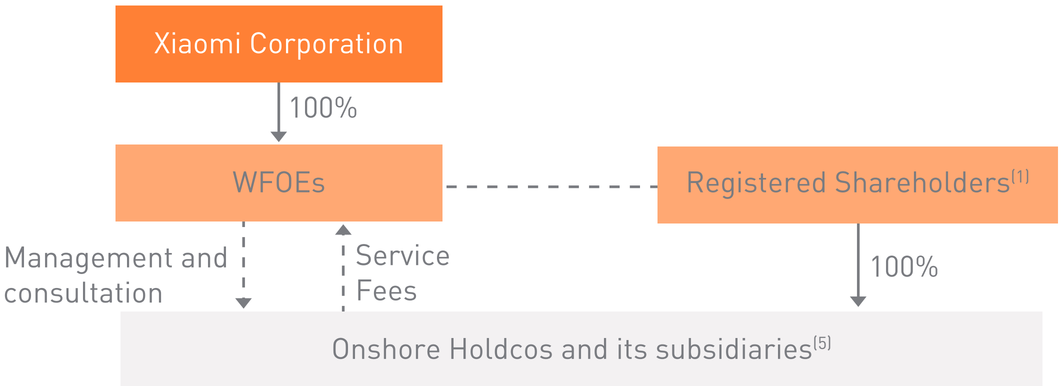
1. Contractual Arrangements

(1) Contractual Arrangements in Place

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

DIRECTOR'S REPORT

The following simplified diagram illustrates the Contractual Arrangements that were in place as of December 31, 2022:



Notes:

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

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

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

(iii) Xiaomi Inc. is owned by Lei Jun (雷軍) as to 77.80%, Li Wanqiang (黎萬強) as to 10.12%, Hong Feng (洪鋒) as to 10.07% and Liu De (劉德) as to 2.01%.

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

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

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

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

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

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

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

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

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

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

a) Exclusive Business Cooperation Agreements

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

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

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

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

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

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

(vi) providing business management consultation;

(vii) providing marketing and promotional services;

(viii) providing customer order management and customer services;

DIRECTOR'S REPORT

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

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

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

b) Exclusive Option Agreements

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

c) Equity Pledge Agreements

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

d) Powers of attorney

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

e) Loan Agreements

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

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

For the Reporting Period, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2022, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of the Consolidated Affiliated Entities amounted to RMB8,822 million for the Reporting Period, representing a decrease by 6.5% from RMB9,432 million for the year ended December 31, 2021. For the Reporting Period, the revenue of the Consolidated Affiliated Entities accounted for approximately 3.2% of the revenue of our Group (2021: 2.9%).

DIRECTOR'S REPORT

(2) Reasons for Adopting the Contractual Arrangements

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

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

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

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

- the PRC government may find that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, which may subject us to severe penalties or be forced to relinquish our interests in those operations;

- substantial uncertainties exist with respect to the interpretation and implementation of Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法) and how it may impact the viability of our current corporate structure, corporate governance and business operations;

- the Contractual Arrangements may not be as effective in providing operational control as direct ownership and our Consolidated Affiliated Entities and the Registered Shareholders may fail to perform their obligations under the Contractual Arrangements;

- we may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities, which could render us unable to conduct some or all of our business operations and constrain our growth;

- the Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and any additional taxes could substantially reduce our consolidated profit and value of your investment;

- the equity holders, directors and executive officers of the Consolidated Affiliated Entities, as well as our employees who execute other strategic initiatives, may have potential conflicts of interest with our Company;

- certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws and regulations; and

- our exercise of the option to acquire equity ownership of our Consolidated Affiliated Entities may subject us to certain limitations and substantial costs.

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

DIRECTOR'S REPORT

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

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

(4) Requirement related to Contractual Arrangements (other than relevant foreign ownership restrictions) as of December 31, 2022

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008, February 6, 2016 and March 26, 2022. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, except as otherwise prescribed by the state.

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

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

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

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

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

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

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

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

(6) Confirmation from Independent Non-executive Directors

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

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

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

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

DIRECTOR'S REPORT

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

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

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

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

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

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

2. Other Connected Transactions

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

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

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

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

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

No.	Transactions	Annual cap for the year ended December 31, 2022 (RMB million)	Actual transaction amounts for the year ended December 31, 2022 (RMB million)
1.	Supply of products by the XM Group to the Xiaomi Finance Group	315	1
2.	Provision of payment and settlement services by the Xiaomi Finance Group to the XM Group	349	77
3.	Provision of marketing services by the XM Group to the Xiaomi Finance Group	573	6
4.	Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group	426	81
5.	Provision of financial services by the XM Group to the Xiaomi Finance Group (excluding the XMF Restructuring Loans)	9,346	6,016

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

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

(2) Confirmation from Independent Non-executive Directors

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

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

(ii) on normal commercial terms or better; and

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

DIRECTOR'S REPORT

(3) Confirmations from the Company's Independent Auditor

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

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

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

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

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

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

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

Major Customers and Suppliers

For the Reporting Period, the five largest customers of the Group accounted for approximately 20.2% of the Group's total revenues while the largest customer of the Group accounted for approximately 13.4% of the Group's total revenues. In addition, for the Reporting Period, the five largest suppliers of the Group accounted for approximately 38.2% of the Group's total purchase amounts while the largest supplier for the Reporting Period, accounted for approximately 13.4% of our total purchase amount.

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

Pre-Emptive Rights

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

Tax Relief

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

Weighted Voting Rights

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

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

DIRECTOR'S REPORT

As of December 31, 2022, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,132,759,253 Class A Shares, representing approximately 62.4% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin beneficially owns 456,087,172 Class A Shares, representing approximately 6.9% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Apex Star LLC, a company controlled by a trust of which Lin Bin is the trustee.

Class A Shares may be converted into Class B Shares on a one-to-one ratio. As of December 31, 2022, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 4,588,846,425 Class B Shares, representing approximately 22.5% of the total number of issued and outstanding Class B Shares or 18.4% of the issued share capital of the Company.

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

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

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

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

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

Corporate Governance

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 78 to 99 of this annual report.

Environmental Policies and Performance

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

For details of the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report on pages 100 to 177 of this annual report.

Final Dividend

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

Use of Net Proceeds

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

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

The net proceeds raised from the 2020 Placing and Subscription were approximately US$3.1 billion. The Company intended 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. As of December 31, 2022, the Company has fully utilized the amount of the net proceeds in accordance with such intended purposes. There has been no change in the intended use of net proceeds as previously disclosed. For further details, please refer to the Company's announcements dated December 2, 2020.

DIRECTOR'S REPORT

As of December 31, 2022, the Company has utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the 2020 Placing and Subscription (US$ million)	Utilization as at December 31, 2021 (US$ million)	Unutilized as at December 31, 2021 (US$ million)	Utilization as at December 31, 2022 (US$ million)	Unutilized as at December 31, 2022 (US$ million)
strengthen our working capital for business expansion	930.0	930.0	–	930.0	–
investments to increase market share in key markets	930.0	930.0	–	930.0	–
strategic ecosystem investments	930.0	796.8	133.2	930.0	–
other general corporate purposes	310.0	310.0	–	310.0	–
Total	**3,100.0**	**2,966.8**	**133.2**	**3,100.0**	**–**

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

On December 17, 2020, Xiaomi Best Time International Limited completed the issuance of the 2027 Bonds, of which the net proceeds amounted to approximately US$889.6 million. The Company intended 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. As of December 31, 2022, the Company has fully utilized the amount of the net proceeds in accordance with such intended purposes. There has been no change in the intended use of net proceeds as previously disclosed. For further details, please refer to the Company's announcements dated December 2, 2020.

As of December 31, 2022, the Company has utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the 2027 Bonds (US$ million)	Utilization as at December 31, 2021 (US$ million)	Unutilized as at December 31, 2021 (US$ million)	Utilization as at December 31, 2022 (US$ million)	Unutilized as at December 31, 2022 (US$ million)
strengthen our working capital for business expansion	266.9	266.9	–	266.9	–
investments to increase market share in key markets	266.9	266.9	–	266.9	–
strategic ecosystem investments	266.9	228.6	38.3	266.9	–
other general corporate purposes	88.9	88.9	–	88.9	–
Total	**889.6**	**851.3**	**38.3**	**889.6**	**–**

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

On July 14, 2021, Xiaomi Best Time International Limited completed the issuance of the 2031 Bonds, of which the net proceeds amounted to approximately US$789.0 million. The Company intended to use the net proceeds for general corporate purposes. As of December 31, 2022, the Company has fully utilized the amount of the net proceeds in accordance with such intended purposes. There has been no change in the intended use of net proceeds as previously disclosed. For further details, please refer to the announcements of the Company published on July 6, 2021, July 8, 2021 and July 14, 2021 and the circular of the Company published on July 15, 2021.

DIRECTOR'S REPORT

As of December 31, 2022, the Company has utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the 2031 Bonds (HK$ million)	Utilization as at December 31, 2021 (HK$ million)	Unutilized as at December 31, 2021 (HK$ million)	Utilization as at December 31, 2022 (HK$ million)	Unutilized as at December 31, 2022 (HK$ million)
General Corporate Purposes	789.0	561.0	228.0	789.0	—
Total	**789.0**	**561.0**	**228.0**	**789.0**	**—**

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

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

There has been no change in the intended use of net proceeds as previously disclosed in the offering memorandum. The Company had fully utilized the amount of the net proceeds in accordance with such intended purposes as of December 31, 2022.

As of December 31, 2022, the Company had utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the Green Bonds (US$ million)	Utilization as at December 31, 2021 (US$ million)	Unutilized as at December 31, 2021 (US$ million)	Utilization as at December 31, 2022 (US$ million)	Unutilized as at December 31, 2022 (US$ million)
Eligible projects	392.8	109.3	283.5	392.8	—
Total	**392.8**	**109.3**	**283.5**	**392.8**	**—**

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. As of December 31, 2022, the Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak. Mr. Wong Shun Tak is the chairman of the Audit Committee.

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

Material Litigation

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

Public Float

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

Compliance with Relevant Laws and Regulations

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

Auditor

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

Events after the Reporting Period

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

By order of the Board
Lei Jun
Chairman

Hong Kong, March 24, 2023

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the year ended December 31, 2022.

Corporate Governance Practices

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

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

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

Compliance with the Model Code for Securities Transactions by Directors

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

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

Board of Directors

Board Composition

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

Executive Directors
Lei Jun *(Chairman of the Board and Chief Executive Officer)*
Lin Bin *(Vice Chairman of the Board)*
Liu De

Non-executive Director:
Liu Qin

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

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

None of the members of the Board are related to one another.

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

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

Responsibilities and Delegation

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

Chairman and Chief Executive Officer

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

Appointment and Re-Election of Directors

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

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

Continuous Professional Development of Directors

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

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

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

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

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

Notes:

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

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

CORPORATE GOVERNANCE REPORT

Attendance Records of Directors

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

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

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

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

Board Committees

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

Audit Committee

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

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

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

- Reviewed the 2021 annual report, including the Corporate Governance Report, the Environmental, Social and Governance Report, Directors' Report and the financial statements.
- Reviewed the audited annual results of the Group for the Reporting Period.
- Reviewed the unaudited first quarterly results of the Group for the three months ended March 31, 2022.
- Reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2022.
- Reviewed the unaudited third quarterly results of the Group for the three and nine months ended September 30, 2022.
- Discussed matters with respect to effectiveness of the Company's financial reporting system, the system of internal control in operation, risk management system and associated procedures within the Group with senior management members, internal auditors and the Auditor.
- Reviewed the plans, resources and work of the Company's internal auditors.
- Reviewed the continuing connected transactions of the Group carried out during the Reporting Period.

CORPORATE GOVERNANCE REPORT

- Reviewed the risk management and internal control systems of the Group.
- Discussed and made recommendation on the re-appointment of the Auditor.
- Reviewed the independence, terms of engagement and remuneration of PricewaterhouseCoopers for annual audit for the Reporting Period.
- Reviewed the status of compliance with the CG Code, the Listing Rules and relevant laws by the Group.

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

Corporate Governance Committee

The Company has established the Corporate Governance Committee in compliance with Rule 8A.30 of the Listing Rules and the CG Code. The Corporate Governance Committee is responsible for performing the functions set out in code provision A.2.1 of the CG Code. The primary duties of the Corporate Governance Committee are to ensure that the Company is operated and managed for the benefit of all Shareholders indiscriminately and to ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structure of the Company. The Corporate Governance Committee would review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. As at the Latest Practicable Date, the members of the Corporate Governance Committee are the independent non-executive Directors, namely, Chen Dongsheng, Wong Shun Tak and Tong Wai Cheung Timothy. Chen Dongsheng is the chairman of the Corporate Governance Committee.

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

- Reviewed and monitored whether the Company is operated and managed for the benefits of all its Shareholders;
- Reviewed the policies and practices of the Company on corporate governance and on compliance with legal and regulatory requirements. The policies reviewed include the Code for Securities Transactions by Directors and Relevant Employees, board diversity policy, director nomination policy, shareholders' communication policy, procedures for nomination of director by shareholders, disclosure of information policy, connected transactions policy, whistle-blowing policy, dividend policy, board remuneration policy, board policy on obtaining independent views and inputs and other corporate governance policies.
- Reviewed the Company's compliance with the CG Code and the deviation(s) from code provision C.2.1 of the CG Code, the Company's disclosure in the Corporate Governance Report and the Company's disclosure for compliance with Chapter 8A of the Listing Rules.

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

- Reviewed and monitored the management of conflicts of interests between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.

- Reviewed and monitored all risks related to the weighted voting rights structure, including connected transactions between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.

- Reviewed the arrangement for the training and continuous professional development of Directors and senior management (in particular, Chapter 8A of the Listing Rules and knowledge in relation to risks relating to the weighted voting rights structure).

- Reviewed the written confirmation provided by the WVR Beneficiaries that they have been members of the Board throughout the Reporting Period and no matters under Rule 8A.17 of the Listing Rules have occurred during the Reporting Period; and they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the Reporting Period.

- Sought to ensure effective and on-going communication between the Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.

- Reviewed the Company's compliance with the ESG Reporting Guide and disclosure in Environmental, Social and Governance Report.

- Reviewed work performance and work plan of ESG team and provide guidance and supervision to the ESG team.

- Reported on the work of the Corporate Governance Committee covering all areas of its terms of reference.

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

CORPORATE GOVERNANCE REPORT

(iv) the Compliance Advisor is consulted on any matters related to transactions involving the beneficiaries of weighted voting rights or a potential conflict of interest between the Group and these beneficiaries. The Corporate Governance Committee recommended the Board to continue the implementation of these measures and to periodically review their efficacy towards these objectives.

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

Independent Input Mechanism

The Company recognizes that Board independence is key to good corporate governance and to increase board efficiency. As part of the established governance framework, the Group has adopted the Policy on Obtaining Independent Views and Inputs (the "**Independent Input Mechanism**") on November 23, 2022, which demonstrates the Company's commitment to high standards of corporate governance, board efficiency and making good governance integral to the Company's culture.

According to the Independent Input Mechanism, the Board, Board committees or individual Directors may seek such independent professional advice, views and input as considered necessary to fulfil their responsibilities and in exercising independent judgement when making decisions in furtherance of their director's duties at the Company's expense (the "**Mechanism**"). Independent professional advice shall include legal advice and the advice of accountants and other professional financial advisers on matters of law, accounting, tax and other regulatory matters.

In the event that independent professional advice, views and input are considered necessary, the Board, Board committees or individual Directors shall communicate with the company secretary to start the Mechanism, providing background and details of the relevant incidents and/or transactions, and the issues involved which would require independent views and input. They may direct any questions, queries, concerns or specific advice to be sought to the company secretary who will then contact the Company's professional advisers (including legal advisers, accountants, independent auditor, internal control adviser) or other independent professional parties to obtain such independent professional advice within a reasonable period of time. Any advice obtained through the Mechanism shall be duly documented and made available to other members of the Board.

Despite having obtained any information or advice from the chairperson of the Board and/or any independent professional advisers through the Mechanism, the Directors are expected to exercise independent judgement in forming their decisions. During the year ended December 31, 2022, the Board has reviewed the Independent Input Mechanism and considered that the implementation of the mechanisms was effective.

Nomination Committee

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

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

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

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

- Recommended the re-election of the retiring Directors at the 2022 annual general meeting of the Company.

Board Diversity Policy

The Company has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. Pursuant to the Board Diversity Policy, in relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. Pursuant to the Board Diversity Policy, the Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

As of the Reporting Period, all of the Board members and senior management are male. Under the Board Diversity Policy, the Company aims to appoint at least one female director. The Board is committed to improving the diversity of the Board and will achieve the above objectives by December 31, 2024. Also, the Group will continue to take opportunities to increase the proportion of female board members workforce over time as and when suitable candidates are identified. For further details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report on pages 100 to 177 of this Annual Report.

CORPORATE GOVERNANCE REPORT

During the Review Period, the Board has reviewed and considered the implementation of the Board Diversity Policy to be on track. The implementation of the Board Diversity Policy is evidenced by the fact that our Directors are from a diverse age group with experience from different industries and sectors. The Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of computer science, engineering, business administration, human resources, finance, and corporate governance. They obtained degrees in various areas including computer science, engineering, electronics, industrial design, business administration, finance, and political economics. The Board is characterized by significant diversity in terms of age, education background and professional experience.

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

Director Nomination Policy

The Company has also adopted a nomination policy for the election of Directors in accordance with mandatory disclosure requirement E(d)(iii) of the CG Code. Such policy, devising the criteria and procedures of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors of the Company. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing Board effectiveness and diversity.

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

Remuneration Committee

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

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

- Reviewed the remuneration policy and the remuneration packages of the Directors and senior management of the Company.
- Reviewed and recommended to the Board the service contracts of Tong Wai Cheung Timothy.

Directors' Remuneration Policy

The purpose of the Director's Remuneration Policy is to ensure that the Company can attract and retain its Directors to meet the business needs of the Company. The Remuneration Committee is to make recommendations on the Directors' remuneration policies and structure, establish formal and transparent procedures to evaluate the performance of Directors, review and make recommendations on incentive plans and the terms of Directors' service contracts, and make recommendations on the Directors' remuneration packages.

In making recommendations on the remuneration packages of Directors, the Remuneration Committee shall have regard to:

- any corporate policies or goals as resolved by the Board from time to time;

- factors such as the level of remuneration paid by comparable companies, the time committed by the Directors and their responsibilities, and the employment conditions elsewhere in the Group; and

- the level of remuneration necessary to attract and retain directors for successful management of the Company.

In addition, the Remuneration Committee shall:

- review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- ensure that no director or any of their associates is involved in determining their own remuneration. In general, no performance-related equity-based remuneration (such as options or share awards) should be given to independent non-executive directors as it may impede their objectivity and independence.

CORPORATE GOVERNANCE REPORT

Remuneration of Senior Management

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

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

Notes:

(1) Senior management as of December 31, 2022.

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

Risk Management and Internal Controls

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

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

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

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

Organization principles:

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

The First Line of Defense — Management and Operation:

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

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

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

The Third Line of Defense — Internal Audit and Forensic:

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

The Internal Audit team directly reports to the Audit Committee.

Notes:

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

CORPORATE GOVERNANCE REPORT

Risk Management Process:

Internal control assessments are conducted regularly to identify risks that potentially impact the business of the Group.

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

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

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

Significant risks of the Company:

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

1. Global macroeconomic risks:

The uncertainty of the global economic trend leads to changes in policies and markets in areas including trade and investment. The increasingly cut-throat competition in the industry also raises challenges to the Company in achieving its business, operational and financial goals. In the face of global economic changes, the Company adjusts its business development strategy accordingly, actively seeks and expands business development opportunities, and creates value for users around the world. The Company also continuously improves its operational efficiency to confront uncertainties arising from the external environment.

2. Geopolitical and compliance risks:

The supervision and regulations of the technology industry by regulatory agencies around the world are becoming progressively stringent. The Company conducts business and provides products and services in the global market, and the continuous expansion of the Company's business both domestically and overseas will be subject to legal and regulatory requirements in areas including antitrust, anti-unfair competition, data and privacy protection, and intellectual property rights. Uncertainties in regulatory policies and international relations around the world may also have an impact on the Company's business expansion. The Company has set up a specialized squad and engaged a professional consultant team to closely follow changes in regulations and policies in countries around the world, maintain active communication with regulatory agencies, and take timely countermeasures. The Company constantly refines and fortifies its internal management mechanism and its ability to resist external risks, to strictly abide by the laws and regulations of markets and countries around the world, and to ensure that the business development in countries around the world complies with local laws and regulations.

3. Product and service quality:

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

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

4. Supply chain:

Our core products are highly reliant on various suppliers who provide raw materials and components. In particular, for certain high-end products (e.g. chips), the sources of raw materials and components are limited. Sourcing from a single region or from a single vendor can happen as well. Products are likely subject to geopolitics as well as delivery limitations and pricing risks, an example being components imperiled by industry-wide supply shortages or volatile price fluctuations. The majority of our suppliers' production lines are concentrated in China. Our global operation including freight, pricing and timely delivery is subject to risk due to this situation.

CORPORATE GOVERNANCE REPORT

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

5. Information security and privacy:

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

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

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

Anti-Corruption and Whistleblowing Policies

The Company has adopted the Whistleblowing Management Rules and the Whistleblower Protection and Reward Rules as the Company's whistle-blowing policies in accordance with code provision D.2.6 of the CG Code, as well as the Code of Honesty and Integrity, the Management Rules for Gift-giving, Hospitality and Travel Subsidy, and the Conflicts of Interest Management Rules, as the Company's anti-corruption policies, in accordance with code provision D.2.7 of the CG Code. The said policies outline the principles and guidelines that the Company intends to apply to promote and support anti-corruption laws and regulations and to establish a whistleblowing system for employees and those who deal with the Company to raise concerns, in confidence and with anonymity, with the internal control department of the Company, which will then report to the Audit Committee any material improprieties related to the Company. These policies are reviewed from time to time to ensure their relevance and appropriateness to the Group's business, corporate strategy and stakeholder expectations.

Directors' Responsibilities in Respect of the Financial Statements

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

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

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

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

CORPORATE GOVERNANCE REPORT

Auditor's Remuneration

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

Type of services provided by the Auditor	Fees paid/payable (RMB'000)
Audit services	54,618
Non-audit services	29,000
Total	**83,618**

Joint Company Secretaries

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

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

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

Communications with Shareholders and Investor Relations

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

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

During the Reporting Period, the Company held an annual general meeting on June 2, 2022, whereby Shareholders entitled to attend were only able to join via online webcast due to the COVID-19 pandemic (the "**Special Arrangement**"). Notice of the meeting was sent to the Shareholders on April 27, 2022, not less than 21 days before the date of the annual general meeting. Notice of the Special Arrangement was published by the Company on the website of the Stock Exchange on May 23, 2022. The chairman of the Board and the chairmen of each of the Audit Committee, the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee attended the annual general meeting and were available to answer any questions raised by the Shareholders. A representative of the Auditor also attended to answer any questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

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

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

Address: 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong
Email: ir@xiaomi.com

CORPORATE GOVERNANCE REPORT

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

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

Shareholders' Communication Policy

The Company has established a shareholders' communication policy with the objective of promoting effective and on-going communication between the Company and the Shareholders so that they can exercise their rights in an informed manner. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. Directors (or their delegates as appropriate), appropriate management executives and external auditor will use all reasonable endeavors to attend annual general meetings and answer enquiries from Shareholders.

The Company discloses information and publishes periodic reports and announcements to the public in accordance with the Listing Rules, the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and does not contain any material omission, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

During the Reporting Period, the Corporate Governance Committee reviewed the shareholders' communication policy and ensure its implementation and effectiveness, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.

Dividend Policy

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

Shareholders' Rights

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

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

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

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

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

During the Reporting Period, the Company has amended its Memorandum and Articles of Association by way of a special resolution passed on June 2, 2022. Details of the amendments are set out in the circular dated April 27, 2022 to the Shareholders.

The up-to-date version of the Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

Events after the Reporting Period

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the Report

This is the 5th Environmental, Social and Governance (ESG) Report (the "Report") published by Xiaomi Corporation ("Xiaomi", the "Group", the "Company", or "we"), with the aim to present, on an objective and fair basis, the ESG policies, management, and implementation progress of Xiaomi Corporation and its subsidiaries in 2022.

The Report was prepared in accordance with the requirement of the Environmental, Social, and Governance Reporting Guideline under Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, published by the Stock Exchange of Hong Kong Limited (the "HKEx"); and with reference to the latest Global Reporting Initiative's (GRI) Sustainability Reporting Standard, the Hardware — Sustainability Accounting Standard of the Sustainability Accounting Standards Board (SASB), the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and the United Nations Sustainable Development Goals (SDGs).

In preparation for the Report, we adhered to the four reporting principles of materiality, balance, quantitative, and consistency, while taking into account comparability, accuracy, verifiability, timeliness, clarity, and sustainability context, to define our reporting boundary and ensuring proper presentation of our reported information.

Materiality: We report and manage material ESG topics which have been identified through stakeholder engagement and materiality assessment exercises. More information can be found in the Stakeholder Engagement and Materiality Assessment sections of this Report.

Balance: This Report discloses both positive and negative aspects of our progress to offer an unbiased presentation of Xiaomi's ESG performance within the reporting period.

Quantitative: The methodologies and standards used for the calculation of Key Performance Indicators (KPIs), including assumptions, tools, and conversion factors, are described in the corresponding section (if applicable) in this Report.

Consistency: This Report was prepared in a manner consistent with previous years to allow for meaningful comparisons over time. Any adjustments are stated in the relevant section of the Report.

This Report covers the period from January 1, 2022 to December 31, 2022 ("in 2022", "this year" or "this reporting period"), and where specified, presents information over a wider time frame spanning before or after 2022, to enhance data comparability and continuity.

The source of information and cases within this Report was mainly derived from the Group's statistical reports, official documents, and financial statements in 2022. The Group undertakes that there are no false records or misleading statements in this Report, and takes responsibility for the authenticity, accuracy, and completeness of the information in this Report.

It is recommended to read this Report in conjunction with the section titled Corporate Governance Report as contained in the Group's Annual Report, as well as the Sustainability page (https://www.mi.com/global/about/sustainability) on Xiaomi's website.

This Report is published in both Chinese and English. In the event of discrepancies between the Chinese and English version, the Chinese version shall prevail.

Governance and Compliance

Board Statement

The Board of Directors of Xiaomi (the "Board") believes that continuous advancement of ESG management framework is beneficial to the sustainable development of the Company, and has appointed the Corporate Governance Committee (the "CGC"), on behalf of the Board, to oversee ESG issues at Xiaomi, with the assistance of the Group's Sustainability Committee (the "SC"). The Board partakes in the formulation and development of the Company's ESG strategy, reviews key ESG-related risks on a regular basis, and advises on risk management approaches.

Xiaomi has formulated our Group-level ESG strategy and put in place effective policies to balance our environmental and social impacts with business goals, and promote sustainable development of the Group. On a bi-annual basis, the Board receives updates of ESG-related data and reviews our strategy and programs to assess the potential impact on our financial performance, and ensure alignment with the Group's strategy. The Board participates in the identification and assessment of key ESG risks and opportunities, which include supply chain risks, product and service quality risks, data security and privacy risks, and others. The Audit Committee assists the Board and top management in overseeing the Group's risk management practice, as well as the design, implementation, and management of our internal control system. The detail can be found in the Corporate Governance Report section of the Group's Annual Report which was approved by the Board.

In 2022, the Board looked into ESG issues that may have substantial impacts on business, including climate change and supply chain issues, and the risk assessment process and results of which are detailed in the Stakeholder Engagement and Materiality Assessment sections of this Report.

This year, the Board reviewed and endorsed the Greenhouse Gas (GHG) emission reduction target of Xiaomi Corporation. Please refer to the Technology for Carbon Reduction section of this Report for details. The Board also reviewed and evaluated Xiaomi's operational environmental targets for our delivery progress and the latest adjustment of these targets, and provided recommendations for changes accordingly. Details can be found in the Environmental Target and Review section of this Report.

This Report was reviewed and approved by the Board on March 24, 2023.

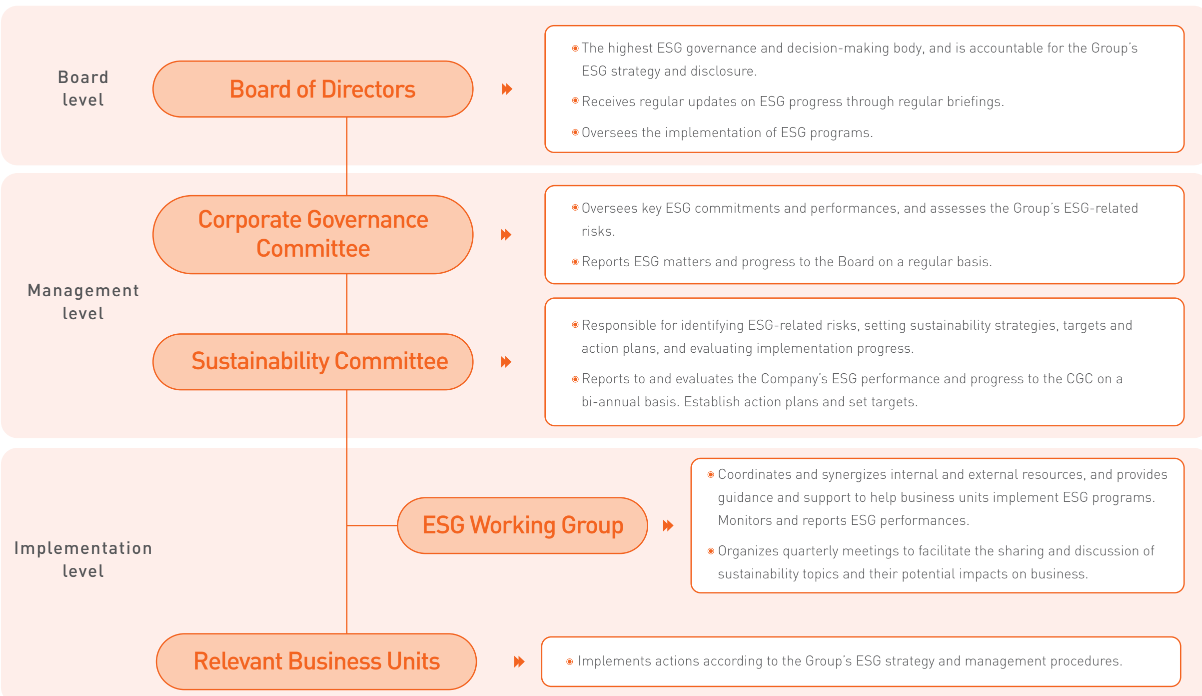
ESG Management and Governance Structure

ESG has been an integral part of our corporate development strategy, and we have fully integrated ESG into our business operations and management. This year, we optimized our ESG governance structure that includes the board, management, and implementation levels. We identify material ESG risks through risk assessment and establish risk management measures to enable the sustainable development of our business. We are also committed to advocating our ESG beliefs across the value chain to foster the long-term sustainable transformation of the industry.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board receives regular updates on the Company's ESG progress and oversees the implementation of ESG programs. The top management is responsible for ensuring our ESG strategy and investment progress toward achieving our long-term ESG goals and targets. The Group's SC, led by the President and other top management and consisting of ESG management personnel, is in charge of identifying ESG-related risks and setting sustainability strategy, targets, and action plans, and is responsible for evaluating implementation progress. The SC reports and evaluates the Company's ESG performance and progress to the CGC on a bi-annual basis, and proposes interim targets and action plans for the next phase of implementation. At the implementation level, the ESG Working Group coordinates and synergizes both internal and external resources to guide the landing of strategy into actions at business units, and enables performance monitoring. The ESG Working Group also organizes quarterly meetings to share and discuss sustainability topics and their potential impacts on business.

Xiaomi Corporation Sustainability Governance Structure



We actively engage and interact with our stakeholders to articulate and communicate Xiaomi's sustainability vision. We attach great importance to issues that may have significant impacts on our business, including product and service quality, exploration and accessibility of technology, data security and privacy protection, sustainable supply chain, climate action, employees, and extending our social responsibility, as well as how we contribute to addressing these issues as a company.

Stakeholder Engagement

Xiaomi actively listens to and responds to the expectations of our stakeholders. Based on our actual business and operation attributes, we identified our key stakeholder groups as listed in the following table, and established effective and multiple communication channels to ensure that their voices and opinions are being integrated into our decision-making process.

Key Stakeholders	Main Communication Channels
Users	Company website and APPs, instant messaging software, customer service, user satisfaction surveys, product launch events, social media, and Xiaomi Fan activities
Shareholders and Investors	Annual general meetings, annual report/interim report, earnings announcements, investor meetings and investor day, press releases/announcements and product launches, surveys, and questionnaires
Employees	Employee exchange meetings, employee feedback channels, internal communication software, labor union, employee surveys, trainings, and internal announcements
Suppliers	Supplier meetings, business negotiations, supplier audits, trainings, researches, and technological collaborations
Operators	Executive dialogues, business and technology conferences, corporate social responsibility seminars, business negotiations, researches, and questionnaires
Regulators	Regular inquiries, policy consultations, senior meetings, information disclosure, site visits, government conferences, and exchanges
Media and NGOs	Social media, corporate announcements/product launch events, press releases, media interviews, media cooperation/brand endorsement, surveys, and questionnaires
Community	Community activities, corporate announcements/product launch events, charity works, and social media

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Assessment

To gain a thorough understanding of our stakeholders' needs and better respond to their expectations on Xiaomi, we took a four-step approach to identify, analyze, and prioritize ESG issues.

Step 1: Background Analysis	We performed an in-depth analysis of our business operations and future development directions, including industry trends, and policy shifts in our operating markets, to identify key trends within and beyond Xiaomi that could affect the sustainable development of our business.
Step 2: Identification of relevant issues	From the results of the background analysis, we identified a total of 16 material issues that are highly relevant to our business. These include four environmental issues, eight social issues, one governance issue, and three issues under the blanket of Inclusive Innovation.
Step 3: Analysis of material issues	We engaged with a wide range of stakeholders in the materiality assessment, through surveys and questionnaires, to help us analyze and prioritize ESG issues material to Xiaomi. This year, we received 5,069 completed questionnaires from respondents of all stakeholder groups who provided their views and ranked the relevant importance of ESG issues. Together with issue experts, we conducted in-depth evaluation and discussion to analyze the stakeholder feedback in a balanced and impartial manner for the "impact on the economy, environment, and society from Xiaomi's operation", and the "influence on stakeholders' decision-making related to Xiaomi" of each issue. The assessment result was eventually plotted in Xiaomi's refreshed materiality matrix.
Step 4: Validation of assessment results with experts, the Board and management	The Board and management representatives reviewed and approved the result of the materiality assessment, and provided recommendations for the Group's direction on sustainability and long-term development based on our operation status. Insights from industry experts on the assessment result were also taken into account to inform our ESG priorities.

This year, we introduced several new ESG issues including "Low carbon impact", "Exploration and accessibility of technology", "Inclusive technology", and "Shared success for partners", to better reflect our business and operation features and respond to stakeholders' concern.

Xiaomi Corporation Materiality Matrix and Ranking of Material Issues

Business Ethics

Management of Business Ethics

Xiaomi is committed to conducting business ethically and in full compliance with applicable laws and regulations. In 2022, we set up the Group Ethics Committee which reports regularly to the Company's top management on affairs of business practices, and assists in the planning, supervision, and training of business ethical requirements. This committee is also responsible for and authorized to investigate any violation of business conduct, including corruption and bribery, and report to the Board on the management of these issues. The Safety Investigation Department is responsible for supervising the business ethics of the Group, as well as strengthening our management system, protocols, and awareness of ethical business conduct. Xiaomi Corporation Employee Handbook contains relevant principles and requirements to guide our employees in lawful and ethical business practices. The Business Conduct Committee, together with Human Resources Department and other relevant departments, supervises the implementation of our ethical standards stipulated in the Employee Handbook, Employee Code of Conduct of Xiaomi Corporation, and Code of Integrity of Xiaomi Corporation. For details of Xiaomi's practice on business ethics, please visit our Sustainability page (https://www.mi.com/global/about/sustainability).

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Anti-bribery and Corruption

At Xiaomi, we uphold the principles of openness, fairness, transparency, and integrity, with a zero tolerance policy against bribery and corruption in order to achieve "full coverage and no restricted area" in anti-corruption management. This year, we continued to optimize our governance structure and management policy, as well as scaling up anti-corruption training in order to create a positive, healthy and fair working environment. This also included constant updates to our anti-bribery and corruption policies for employees, suppliers, and other business partners. For instance, we revised the Approach to Manage Violation of Business Conduct of Xiaomi Employee to provide a clearer classification of acts that violates business conduct, and specify the procedures to ensure accountability. In addition, we released a renewed version of the Business Integrity Agreement this year, which has been appended to our service agreements with suppliers and business partners as part of their contractual obligations.

In 2022, the case involving a former employee of the Company was concluded with the disposition of the offender being convicted for bribing of non-state functionaries, as stipulated in Article 163 of the Criminal Law of the PRC, and was sentenced to 6-month imprisonment and a fine of RMB10,000.

Fostering Business Integrity

This year, we organized a series of employee training that covered the topics of anti-bribery and corruption news, legal requirements and standards, case studies, whistleblowing, and conflict of interest. In March, the entire Board of Directors was updated on the progress of integrity management and the outcome of anti-corruption training. We rolled out extensive online and offline training sessions to all levels of our employees (management, frontline staff, fresh graduates, interns, and part-time employees), and achieved 100% employee coverage. We also provided training on the aforementioned topics to our suppliers. In 2022, we delivered more than 55,000 hours of training related to anti-bribery and corruption, with over 50,000 participants in total.

Whistleblowing System

Xiaomi has established and implemented a whistleblowing mechanism to ensure that the reports of misconduct are being handled in a secure, unimpeded, reliable, and effective manner. This year, we released the Whistleblower Protection and Reward Policy of Xiaomi Corporation, which was upgraded based on the previous version of Whistleblower Reward Policy of Xiaomi Corporation, to stipulate the protection measures, reward application procedures and channels for whistleblowers, as well as the requirement to manage whistleblowing by an independent panel to ensure confidentiality of the reporting channel and location. Employees and other relevant parties can raise their concerns through the following public channels:

Email: tousu@xiaomi.com
Website: https://mi.com/integrity

Anti-money Laundering

We strictly comply with the Anti-money Laundering Law of the PRC and the requirements set out in the Guidelines for the Self-assessment on Risks of Money Laundering and Terrorist Financing of Corporate Financial Institutions issued by the People's Bank of China, and other applicable laws and regulations in regions where we do business, to fulfill our obligation as a responsible business in preventing money laundering across boarders and countering terrorist financing. And in this regard, we took specific measures in accordance with our Detailed Implementation Rules of Self-Assessment of Money Laundering and Terrorist Financing Risks, to monitor and assess suspicious transactions, users, and financing activities through a digitized monitoring system. A joint task force comprising our anti-money laundering (AML) and countering terrorist financing (CTF) team leads the work to prevent, supervise and manage money laundering and related risks at Xiaomi.

Anti-monopoly and Anti-unfair Competition

Xiaomi puts a high emphasis on anti-monopoly and anti-unfair competition compliance. We have established anti-monopoly and anti-unfair competition compliance systems at the Group level and incorporated the requirements into the Code of Conduct of Xiaomi Corporation. We have published the Anti-monopoly Compliance Handbook, which specifies the definition of monopoly agreements, abuse of dominant market position, compliance with the concentration of undertakings, and anti-monopoly investigation procedures, to guide the proper development of the business. This year, over 900 employees participated in 17 anti-monopoly trainings organized for our China and international businesses. In 2022, there was no legal proceeding against Xiaomi in relation to monopoly or unfair competition behavior.

Protection of Intellectual Property (IP)

Innovation is core to everything we design and make at Xiaomi, therefore we established robust intellectual property (IP) management system to protect the fruits of intellectual endeavor and respect those from the partners in our ecosystem. Managed by our legal team, our IP management system entails a multi-disciplinary IP management framework that covers patent planning, trademark and brand identity, copyright, open-source, data security and privacy protection. Each business unit designates an IP specialist to take responsibility for implementation and actions.

Meanwhile, Xiaomi advocates and explores diverse and sustainable collaboration in IP with our industry peers and business partners to create shared values. We believe that our own experiences pertaining to the safeguarding of IP from infringement can contribute to the equitable and just development of our industry. This year, we officially released our inaugural Xiaomi Intellectual Property White Paper that sums up our years of practices in IP protection.

Trademark and Brand Equity

Xiaomi ensures compliance with the Trademark Law of the PRC as well as other applicable laws and regulations in the regions we operate. We released the Brand Usage and Management System of Xiaomi Corporation (Trial) to define the requirements of the compliant use of our trademarks, trademark rights confirmation and trademark rights protection.

To protect the Xiaomi brand and our trademarks from infringement, we are unreserved to withhold our rights against counterfeits and abuse of our trademarks. This year, thanks to the governance projects across our China and overseas online platforms, we removed over 1.11 million infringing links and social media accounts, and terminated over 220,000 malicious links, 25 infringing accounts domain names and applications. We also assisted the Customs in preventing the import and export of counterfeits, confiscating over 150,000 counterfeit products throughout the year; and supporting relevant agencies on criminal and counterfeit cases to crack down on over 890,000 counterfeit products.

Compliance on Advertising

At Xiaomi, we abide by the Advertising Law of the People's Republic of China, the Interim Measures for the Administration of Internet, and other applicable laws and regulations where we advertise in a responsible fashion. Relevant departments in Xiaomi co-manage the compliance of our products and services advertisements with respect to the content, quality, and qualification of our advertising partners. We strictly conform to the requirements of each advertising platform to prepare our advertisement content, and the corresponding materials such as legal qualifications, for audit and verification by the platforms before it can go live and reach the audience. We have also set up a complaint mechanism to investigate feedback and improve our advertisement management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Technology Created to Better Lives

Xiaomi is a consumer electronics and smart manufacturing company with smartphones and smart hardware connected by an IoT platform at its core. Embracing our vision of making friends with users and be the coolest company in the users' hearts, we strive to pursue innovation, high-quality user experience and operational efficiency. We are committed to building amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. It is our firm belief that the development of technology has the power to positively reshape the way we lives and how our society operates, and good technology plays a defining role in this transformation.

We stay vigilant for the impacts of climate change, and are progressive in doing our part of work to fight against climate change. Our fundamental approach to creating positive climate impact is unambiguous — a top-down climate strategy to guide direction, a rigorous system for Greenhouse Gas (GHG) data collection and accounting to set valid GHG emission reduction targets, and the adoption of technology-enabled solutions which turn our principles into actions.

Our Climate Strategy

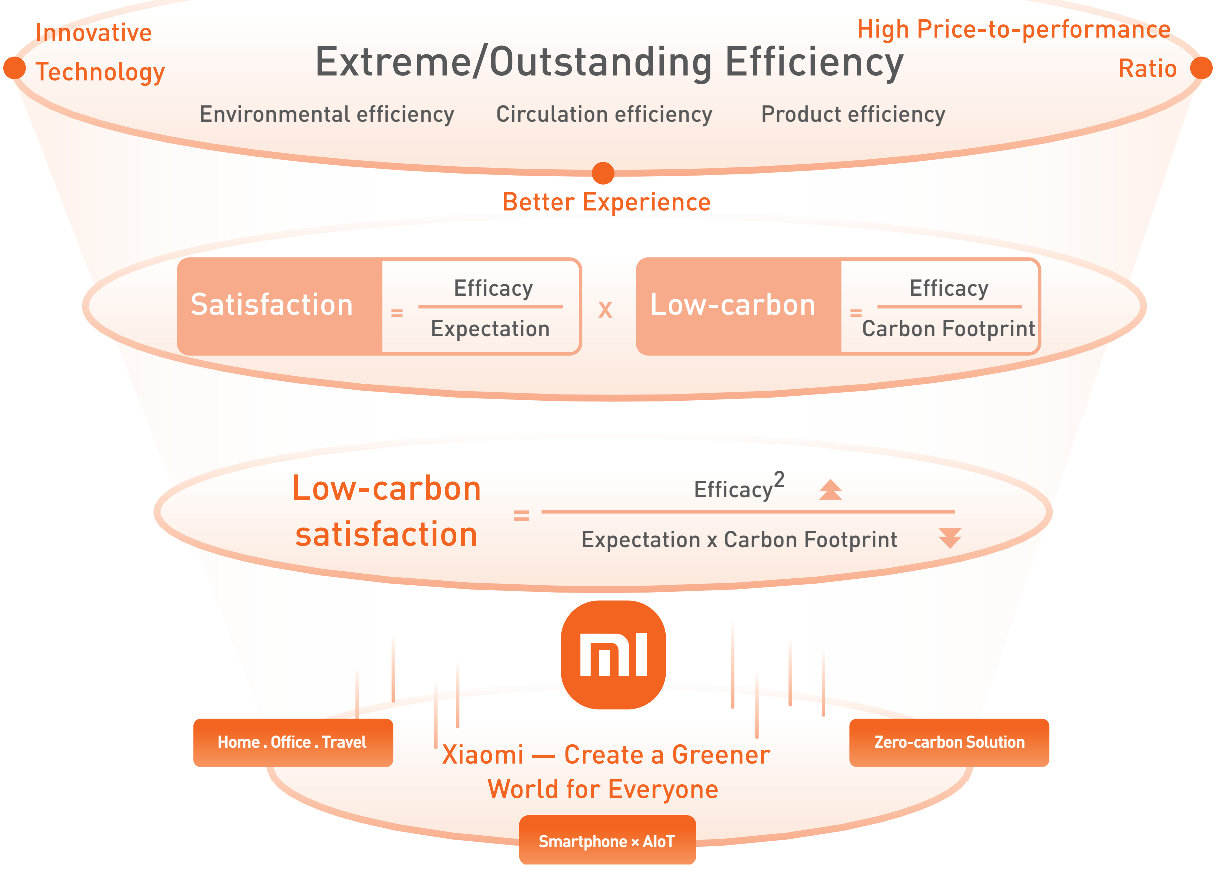
With each year, the consequences of climate change are increasingly evident and detrimental in many parts of the world. To uphold our mission of letting everyone in the world enjoy a better life through innovative technology, we believe it is our responsibility as a global tech innovator to help avert the rapidly changing climate with solutions built upon our strength in technological innovations and operational efficiency. We have infused climate-conscious elements into the design-to-delivery process of our coolest product, exploring every possible integration of low-carbon with Xiaomi's business strategy and brand features, and translating these principles into environmentally-friendly technologies and products that help accelerate the global transition to a net zero emission economy.

Low-carbon Satisfaction

Based on our understanding of the global pathway towards net zero emission, we have introduced the concept of Low-carbon Satisfaction as a novel indicator that encompasses three dimensions — product efficacy, price, and environmental footprint, to measure our products and services from a whole new perspective. The concept has eventually evolved into Xiaomi's Zero-carbon Philosophy. With the goal to raise the Low-carbon Satisfaction Score among our users, we work to improve both our product efficacy and affordability, whilst making strides to reduce the environmental footprints of our products and services. In doing so, we believe we can make clean technology accessible to everyone. The essence of this concept is already rooted throughout the lifecycles of our products and services, and has been an integral part of Xiaomi's Smartphone × AIoT[1] core strategy for the new decade. For instance, we have been building a smart and interconnected ecosphere around smartphones, covering multiple scenarios including home, office, outdoor, and travel. Now that the groundwork has been paved, we will continue to explore the use of low-carbon technology across more devices and in more scenarios, for our aspiration is to create positive climate impacts, and foster transformation towards a greener lifestyle and low-carbon society.

1 AIoT: Artificial Intelligence of Things

Xiaomi's Zero-carbon Philosophy



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Technology for Carbon Reduction

Measuring our Carbon Footprint

Greenhouse Gas Emissions Calculation

The journey to achieving our long-term GHG emission reduction targets begins with accurate data collection, assessment, and tracking of Scope 1, 2, and 3 GHG emissions. At present, Xiaomi's entire value chain primarily relies on the power grid to supply electricity for operation. In light of the varying energy mix in different regions of the world, our GHG data standard and accounting models are established in accordance with international protocols including the Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard, ISO 14064-1:2018 — Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals, as well as other applicable national, local, and industry standards. The GHG emissions from our operations for the past three years are listed below[2]:

Year	Scope 1 Emissions (Metric Tons CO_2e)	Scope 2 Emissions (Metric Tons CO_2e)	Scope 3 Emissions (Metric Tons CO_2e)
2020	8,402.12	58,079.17	—
2021	9,096,95	73,723.21	12,368,223.29
2022	**7,122.60**	**78,620.01**	**We were in the process of verifying our Scope 3 GHG emissions at the time of this Report's release. The data is expected to be disclosed in July 2023 on our website.**

Our GHG Emission Reduction Targets

Xiaomi adheres to the principles of prompt action, practicability, steady progress, and continuous improvement, and takes a phased approach to develop and implement our GHG emission reduction action plans and deliver our reduction targets in our operations and value chain. We prioritize autonomous emission reduction measures, such as retrofitting existing buildings for energy efficiency, low-carbon building planning and design, operational efficiency improvement, and renewable energy use to minimize our operational carbon emissions. We are committed to promoting low-carbon transformation of our products and fostering value chain decarbonization by providing supplier low-carbon capacity training, carbon data, and target management, and implementing carbon reduction projects. Our goal is to accelerate the construction of zero-carbon products and zero-carbon value chains through technological innovation and transformation while working with our upstream and downstream partners to build a green ecosystem.

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2 Xiaomi's GHG emissions mainly include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), and hydrofluorocarbons (HFCs). The total GHG emission is reported in terms of carbon dioxide equivalent. We calculated the GHG emissions from facilities and operations owned by Xiaomi, as well as those from the upstream and downstream of Xiaomi's value chain. Details of our GHG emission scope include:

1) Direct GHG emissions (Scope 1): GHG directly generated from the use of natural gas and gasoline for operations and fugitive emissions from refrigeration, fire suppression equipment, and fugitive emission of GHG from the wastewater treatment process.

2) Indirect GHG emissions (Scope 2): GHG emissions generated from consumed electricity and consumed heat for operations.

3) Other indirect GHG emissions (Scope 3) from our value chain: All of Xiaomi's products are sold directly to customers without further downstream processing activities. We take the operational control approach to consolidate our GHG emission data, therefore, our GHG emissions from the value chain include those from the purchased goods and services, capital goods, fuel and energy-related activities (which are not included in Scope and Scope 2), upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, use of sold products, end-of-life treatment of sold products, downstream leased assets and franchises.

Reviewing our GHG Emission Reduction Targets

In 2021, Xiaomi sets our first-ever GHG emission reduction target, which aims to reduce per capita GHG emissions from its self-operated campus by 4.5% by 2026 compared to the 2020 baseline. As of the end of this reporting period, we have achieved a 21.12% reduction in per capita GHG emissions against our baseline year[3].

Through more implementations and practices, we clearly understand that our progress in reducing greenhouse gas emissions depends on a variety of complex factors, including the size of our business scale, energy mix, supplier selection, and the evolution of verification standards and models, all of which may directly lead to fluctuations in our absolute greenhouse gas emissions. That being said, it is our unwavering commitment to using better and cleaner technology in the way we design, make, and deliver our products and services to users. We will remain observant of the relationship between our business scale and GHG emission metrics, and maintain transparency in disclosing and reporting our emission reduction progress. This year, we updated our GHG emission targets and reaffirmed our commitment to better support the Paris Agreement in keeping global temperature rise.

Setting GHG Emission Targets

To support the global aspiration of reaching net zero by 2050[4], we are committed to reducing our Scope 1 and Scope 2 GHG emissions:

- By no later than 2030, reduce GHG emissions[5] from our main operating segments[6] by at least 70% from the base year[7] level;
- By no later than 2040, reduce GHG emissions from our main operating segments by at least 98% from the base year level, with pre-conditions in place to achieve net zero emission[8];
- Prioritize the use of low-carbon technologies, long-term green power purchase agreement, and on-site renewable energy generation to reduce GHG emissions throughout our target period;
- Encourage key suppliers to establish renewable energy usage and GHG emission reduction targets that are comparable to or more ambitious than those of Xiaomi to deliver continuous reduction in our Scope 3 emissions.

3 This year, we implemented a flexible work policy to enhance employee wellbeing during the pandemic outbreaks. This has resulted in a reduced occupancy rate on our campus, and was one of the reasons which led to the significant reduction in the GHG emissions per capita of self-operated campus.

4 Long-term goal of the Paris Agreement.

5 GHG emissions: Refers to the Company's GHG emissions (absolute value) calculated in accordance with standards such as GHG Protocol and ISO 14064 standard.

6 Main operating segments: Smartphone, IoT and Lifestyle products, Internet Services, and others (same scope as the operating segments stated in the 2022 Annual Report).

7 Base year: 2021.

8 Net-zero emission: Refers to the ISO Net zero guidelines (IWA 42:2002)'s definition and guidelines on net zero emissions, of which the residual GHG emissions in the target year are in line with the science-based pathways to limit global warming by 1.5°C.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Measuring our Product Carbon Footprint

This year, we initiated and completed product lifecycle carbon footprint assessments for three of our representative products[9] (including two models of smartphone products and one air-conditioner product). We worked with an independent organization, who is specialized in carbon accounting and certification, to develop a smartphone-oriented carbon footprint assessment framework and methodology with reference to the PAS 2050 standard for quantifying product carbon footprints. In the next phase, we will replicate this approach to assess and manage the product carbon footprint of a broader range of our products, including more smartphone models, air-conditioners, smart TVs, and other ecosystem products of Xiaomi.

Research and Development of Clean Technology and Product Application

Product energy use is one of the main contributions to Xiaomi's gross carbon footprint, and will inevitably impact the user experience of our products. This is why we have proactively set product-level energy efficiency targets, at the onset of designing every Xiaomi product, so that our engineers can instill carbon-conscious concepts into both the hardware and software engineering of each product to improve energy efficiency. Meanwhile, we continue our decarbonization efforts for all our products and packaging materials across the product lifecycle including the materials, production, transportation, product usage, and end-of-life management to reduce our product's lifecycle carbon footprint. This year, Xiaomi invested more than 50% of our total R&D expenses in clean technology research and development, and 59.7% of our total revenue was generated from the application of clean technology-related patents and products. If Xiaomi continues to maintain a strong investment in clean technology, it may gain us a competitive advantage in the transition towards a low-carbon economy and the opportunities to generate approximately 0-1% of additional revenue every year. This financial impact could vary widely from this estimate, therefore we included a range of financial return from 0 to this estimate.

R&D on Energy-efficient Technology

For Xiaomi, product energy efficiency is a delicate balance of high efficiency, high speed, and lossless transmission, and these are the focal points of our research and development. This year, we have made notable progress in the following areas:

5G and Energy-saving Signal Transmission Technology

- By introducing multiple 5G energy-saving technologies into our smartphones, such as self-adaptive broadband and energy optimization technology, we are able to optimize the adaptive selection and search strategies for 5G network in multiple scenarios such as weak-signal environment, no-service night mode, and invalid card registration, to enable higher power saving efficiency of our smartphones.

- With the use of a more advanced WLAN chips, in combination with the WLAN power monitoring and dynamic transmission technology, the power consumption of the product's WLAN module is reduced by approximately 30% compared to the previous generation.

Energy-efficient Display Technology

- By switching to Dark Mode, which turns the smartphone background into black, the energy consumption of the display can be reduced by as much as 70% when using specific applications.

- The use of energy-saving display in combination with a highly-efficient screen processor can make our display approximately 7% more efficient in screen power energy.

9 For details of our product lifecycle carbon footprint assessment, please visit our Sustainability page (https://www.mi.com/global/about/sustainability).

Intelligent Energy-saving Technology

- The function of auto-adjust display refresh rate, once enabled, will automatically tune down the display refresh rate when the screenplay is idle to save energy consumption.

- The intelligent audio energy-saving technology will automatically select the most fitting audio volume by taking into account the acoustic level of the ambient environment, thereby reducing energy consumption from excessive sound volume.

Low-energy AI Assistant

- We have optimized the self-developed algorithms of our AI Assistant, so that it can be activated by voice command now with 37% lower energy consumption.

Application of Clean Technology

New Energy Products

This year, we took a step forward in our New Energy product offerings by launching the portable Mijia Solar Panel, which has a high energy conversion rate thanks to the innovative Meta Wrap Through (MWT) technology. It is designed to use with the Mijia Outdoor Power Supply 1000 Pro, the combined use of which will make outdoor power supply and storage possible.

Charging Technology

At Xiaomi, we always push the limits of R&D and the application of hyper-efficient charging chips. This year, we introduced our self-developed dual-charge pump battery management system to our smartphones, which marked the milestone for the full application of self-developed technologies along the entire technology chain of battery, and enabled us to offer a triplex fast-charging solution — wired fast charging, wireless fast charging, and wireless reverse charging — to our users. In 2022, more than 100 million smart devices and terminals used Xiaomi's fast-charging technologies, saving nearly 57 million kWh of energy consumption and 24,852 tons of CO_2e emissions in comparison with conventional fast-charging technology[10].

Environmentally-friendly Design

Driving a Circular Business Transformation

The end-of-life disposal of electronic devices has a significant impact on the environment, and together with resource scarcity and other challenges, there is no shortage of reasons for Xiaomi to accelerate our transition from the conventional linear growth model of take-make-waste, to a circular business model which prioritizes material recycling, reuse and regeneration. To this end, driving the recovery of electronic products has always been one of our core directions in the circular economy, and we have rolled out global product take-back programs to forge ahead the systemic changes needed to enable a circular economy. Details of this initiative can be found in the Circular Economy and Electronic Waste section.

10 Energy consumption = Charging efficiency x battery capacity x battery voltage x smartphone quantity. The battery capacity is 4,500mAh, and the battery voltage is an average of 3.87V. Assuming that each device is charged once a day on average, the high-efficiency charging scheme has a charging efficiency of 97%, whereas the traditional scheme has 88%.

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Eco-friendly Packaging

The push for environmentally conscious practices in packaging is increasing globally. Xiaomi has long been working on innovations to make our packaging more eco-friendly and lightweight. This year:

- For our Bluetooth earphone "Necklace" series, we switched from using plastics to paper-based materials for the outer packaging, including the use of pulp-based wrapping paper, making the entire packaging 100% biodegradable;

- We refurbished the packaging for our ecosystem products from buckling box to flattened carton box, and removed the plastic handle in the new design. Through this upgrade, we are able to reduce the use of paper packaging by an average of 0.3m^2 per product, and remove approximately 80g of plastic used in every packaging.

Manufacturing with Beauty and Optimal Efficiency in Mind

With a focus on product structure and material selection, we work closely with our manufacturing suppliers to optimize the production process and simplify production procedures, to help them improve production efficiency while delivering product carbon emission reduction. Xiaomi's air conditioner product serves as an excellent example here — we design the casing to be sleek, minimalistic, and uniform, so that we can reuse the molds for producing multiple models while maintaining consistent aesthetics across more products. This has enabled us to avoid approximately 48,500 kWh of energy per set of mold if a new one is needed. Besides, this year we have implemented a shift in packaging for some of our indoor and outdoor air conditioning units, transitioning from separate packaging to integrated packaging. This not only leads to a reduction in packaging materials and production steps but also improved our resource and manufacturing efficiency.

Green Operation

Xiaomi has taken strides to implement measures that improve our resource efficiency of energy and water consumption, reduce the discharge of wastes and other pollutants, and enhance our environmental management systems to better support our operations while meeting the tightening legal and regulatory requirements.

Energy Management

Strengthening Operational Energy Management

This year, we established an Energy Management System in accordance with ISO 50001 Standard to advance our overall energy management capability. Through more extensive application of solar energy facilities, energy grading management, use of sensory lighting, smarter management of air-conditioning systems, optimizing heat exchange station for chillers, and elevator plant room temperature control measures, we have made notable progress in reducing energy consumption and GHG emissions from our operations. Together with our other energy-saving measures such as the use of variable frequency control and waste heat recovery technology, we delivered approximately 2,630,000 kWh in energy savings and 3,086 GJ in heating savings in 2022, which amounted to 1,839 tons of CO_2e emission reduction[11].

11 The GHG emission factor for electricity is calculated with reference to the national average emission factor of China's power grid for 2022 published by the Ministry of Ecology and Environment of the People's Republic of China. The GHG emission factor for heat is calculated with reference to the <Guidelines for Greenhouse Gas Emission Accounting and Reporting for Other Industrial Enterprises (Trial)>.

Improving Building Energy Efficiency

Building energy management is a key priority for Xiaomi to ensure green operation. We explore and evaluate every opportunity for energy saving across our existing buildings and office campuses, and incorporate energy efficiency principles early in the design process of new buildings and to adopt a green construction approach that takes into account local conditions and building functions.

We benchmark against leading international green building certification schemes to raise our buildings' overall environmental performance and to guide our energy efficiency programs. An exemplar is the Beijing Xiaomi Science and Technology Campus, being the centerpiece among Xiaomi's global office campuses, has attained the Leadership in Energy and Environmental Design (LEED) Platinum® Certificate, as well as the 2-star Certificate of the China Green Building Design Label (CGBL).

The Group's Jiangsu Nanjing office campus, where construction is well underway, reflects Xiaomi's approach to blend in with the urban fabric and enhance social value through sustainable building design. Low-energy equipment and energy-efficient measures have been extensively incorporated in this office campus. For instance, the installation of adjustable ventilation and air-conditioning systems will boost our operational energy performance by a significant margin. Moreover, we selected a double-glazed Low-e facade — an eco-friendly glass material with outstanding performance in both heat insulation and light penetration — to form our building exterior, showcasing the green and ecological virtue of this new office campus.

Water Stewardship

Water is an elemental resource that flows through various aspects of sustainable development, and a thriving society and natural environment depend vitally on a well-functioning water system. For this reason, Xiaomi is committed to furthering our water stewardship practice to safeguard water security and conserve aquatic ecosystems in the watersheds where we operate, and use innovative technology as a force to enhance access to clean and affordable water resources. As for the wastewater generated from our operations, we have policies in place to ensure that its discharge and quality are compliant with local requirements. We have also established a water management system with reference to the Alliance for Water Stewardship (AWS) standard to conduct water risk assessment, set water management targets and action plans, and evaluate our progress on an annual basis. Please see the Environmental Target Review section for more details.

As one of Xiaomi's principal workplaces, Beijing Xiaomi Science and Technology Campus was designed, built and operated in accordance with top-tier green building standards. Our approach to water efficiency builds upon the principles of using less water and maximizing the circular use of water resources. This year, we stepped up the sustainable water stewardship management at Beijing Xiaomi Science and Technology Campus to deliver on the five outcomes under the AWS standard (good water governance, sustainable water balance, good water quality status, healthy status of important water-related areas, and access to water, sanitation and hygiene (WASH) for all), and shared our management experiences with other Xiaomi campuses to initiate changes. In 2022, we reduced freshwater withdrawals at Beijing Xiaomi Science and Technology Campus by 10.60% versus the previous year, which well exceeded our annual water-saving target. Further to this, we have set a more comprehensive set of water management targets for this campus, please visit our Sustainability page (https://www.mi.com/global/about/sustainability) for more detail.

Waste Management

We maintain our commitment to the safe and responsible management of waste. Our process of waste collection, sorting, segregation, and reuse is long established and mature, and we commence qualified third-party organizations to treat and dispose of wastes compliantly. We also put up signs and circulate educational videos on environmental protection topics to our employees to raise awareness. Each of them is a champion who can contribute to reducing waste from our daily operations.

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Non-hazardous Waste Management

Non-hazardous waste generated from our operations mainly includes domestic waste from offices and food waste from our canteens, and we seek opportunities to convert them into resources. Take food waste as an example, we instituted professional waste treatment equipment to process food residuals from canteens into animal feeds or organic fertilizers, the quality of which is fully compliant with respective national standards. In 2022, at Beijing Xiaomi Science and Technology Campus, we processed about 3,281 metric tons of food waste, converting it into approximately 334 metric tons of animal feeds and organic fertilizers.

Hazardous Waste Management

Our major sources of hazardous waste are the toners and cartridges from our workspace, and the scrap materials such as metals, wastewater, solvents and scraps generated from R&D activities. We collect and return all the waste toner and ink cartridges to our suppliers for recycling or proper treatment. Other scrap materials from our laboratories and Yizhuang Smart Factory are temporarily stored in designated hazardous waste storage area, before being collected by licensed third-party organizations for downstream processing and disposal.

Green Logistics

Forging a green and efficient logistics system is not only critical to ensure seamless connection and flow of products across our value chain, but is also one of the key levers to reduce operational energy consumption and product lifecycle footprint. This year, our efforts centered around environmental friendliness and resource efficiency of our logistics operation. We have improved the full-load rate of distribution vehicles and optimized logistics route planning through smarter management and the use of intelligent management systems. The benefits are evident — higher logistics efficiency, on-time delivery, and reduced carbon emissions. Some of our key progresses in 2022 include:

- Added eight direct distribution routes from our warehouse to retail stores to minimize interchange and thereby avoid CO_2 emissions;

- Utilized smart logistics management system to monitor truckload rates in real-time and make instant optimization. This technology has enabled us to maintain a 75% load rate or above in the distribution of small and medium-sized products. We also switched to using carton-based slide pallets instead of wooden pallets for the packaging of smart TV products, and this change alone has led to a 20% increase in our vehicle's full-load capacity;

- Based on our research, the proportion of new energy vehicle fleets deployed by carriers in mainland China reached 8% in 2022. We aim to be ahead of the tide and thus encouraged and supported our carrier partners to develop transition plans for new energy vehicle fleets;

- We have adjusted the transportation mode for overseas deliveries, shifting from the high carbon-emission air transportation to railway or sea transportation for some of our products. This adjustment involved a total of approximately 2.32 million products delivered overseas;

- We reduced the use of wooden pallets by 13,700 pieces in 2022, which is equivalent to saving approximately 200 tons of wood resources.

Technology for Low-carbon Impact

At Xiaomi, we believe our model of optimal efficiency is enabling our partners and more scenarios to achieve faster delivery, shortened response cycle, and improved efficiency. Xiaomi is a symbol of an innovative and highly efficient business model. Under various scenarios — whether it is at home, office, outdoors, and during travels, Xiaomi's value proposition entails wellness, environmental friendliness, and inclusion. From the macro socio-economical perspective, Xiaomi offers resource-oriented and efficient solutions to address business and societal problems. Through our persistent actions, investment, engagement, and advocacy, we aspire to create a more substantial and long-lasting impact with our efficiency-driven model.

From Smart Factory to Smart Manufacturing

We see this as our mission, as a global tech leader, to contribute to industry upgrades and transformation. We approach this through pioneering, investment, and collaboration, for example, to drive innovation around the technological ecosystem of smart factory, including smart production processes and smart factory operation systems. In 2020, Xiaomi's first smart factory commenced operation in Beijing Yizhuang, and has since then become a testing ground, with an advanced level of automation and remarkable production agility, for Xiaomi's most cutting-edge innovations and processes. A year later, Phase II of Xiaomi Smart Factory broke ground and commenced construction. This year, we have been exporting our smart manufacturing solutions to empower our partners in the manufacturing sector. Some of our supply chain partners have already taken on the full set of Xiaomi's smart production process and operation system to help them migrate towards a highly efficient, low-energy, and intelligent manufacturing hub.

AIoT for Energy-efficient Dwellings

AIoT platform — the combination of the IoT which provides digitalization and connectivity across systems, and the artificial intelligence to optimize system management — is our core lever to enhance system stability while improving energy efficiency. As early as 2013, we have been building and shaping the Xiaomi ecosystem spanning various scenarios such as home, office, outdoor, and travel. Take the home scenario as an example, we have developed over 1,000 Xiaomi and Mijia smart home products, which can be controlled and managed via the Mi Home App to optimize energy efficiency.

Partnering with high school for the "Integrated Smart Management of Thousand Devices Program"
This year, Xiaomi partnered with a high school in Beijing to initiate a program on integrated smart management of multiple devices, which aims to improve the workplace and learning environment for teachers and students. We have placed over few thousands of smart appliances, in the school library, offices, and teacher's apartments, including smart desk lamps, water purifiers, smart TVs, refrigerators, washing machines, routers, microwaves, electric fans, and many other smart devices, all of which can be controlled via an integrated system to enable central management and digitalized decision-making. This is a live example of how our AIoT platform enables automated and smart management of numerous devices to achieve energy, resource, as well as operational efficiencies.

Smartphone Natural Disaster Warning System

Xiaomi holds the belief that establishing a comprehensive natural disaster monitoring network and a connected warning information-sharing system is a crucial step in climate adaptation and building a natural disaster prevention mechanism. To this end, Xiaomi has developed the Natural Disaster Warning system on its MIUI operating system of smartphone, which receives warning information from the China National Warning Center on five types of disasters,

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including meteorological, geological, oceanic, forest, and biological disasters. Disaster prevention guidelines are also disseminated to provide holistic information technology support on disaster emergency response measures. Through this system, we have issued over 119,000 red/orange[12] natural disaster warnings and delivered more than 66 million warning messages to our users in 2022.

Sustainable Finance

We support Xiaomi's vision for sustainable development and our business strategy by leveraging sustainable financing and investing. We adhere to the Xiaomi Green Finance Framework[13] to utilize capital, which we raised through Green Bonds to fund high-quality and green projects such as eco-efficient and circular economy-adapted products, production technologies and processes, energy efficiency, green buildings, clean transportation, pollution prevention and control, and renewable energy. We also encourage others who share our values to join us through conscious investment and leverage our resources and influence to support the global sustainable development goals.

We took a collaborative approach to work with global financial institutions. This year, we offered an RMB30 million fund to the Green Deposit Program originated by a financial institution, which will be exclusively used for the issuance of green loans to support projects on delivering energy efficiency, clean production, clean energy, environmental and ecological conservation, infrastructure development, green upgrade, and other green services that generate environmental benefits. We believe that using financial instruments to support green projects will benefit both Xiaomi and our stakeholders. This is an indispensable part of Xiaomi's vision and long-term value creation.

Sustainable and Impact Investing

One of our investment priorities are disruptive technologies, such as those that improve production efficiency, reduce energy consumption, minimize resource consumption, and technology or industrial process that are clean and hazardous-free to the environment. We also place particular emphasis on companies and projects that enhance accessibility to information and communication technology, provide services to vulnerable or minority group, and those with a focus on building inclusive technology. By using investment as our lynchpin, we aim to advocate Xiaomi's sustainable development philosophy more efficiently, and deepen collaboration with partners to work together towards shared growth and sustainable development goals.

Investing into low-carbon technology

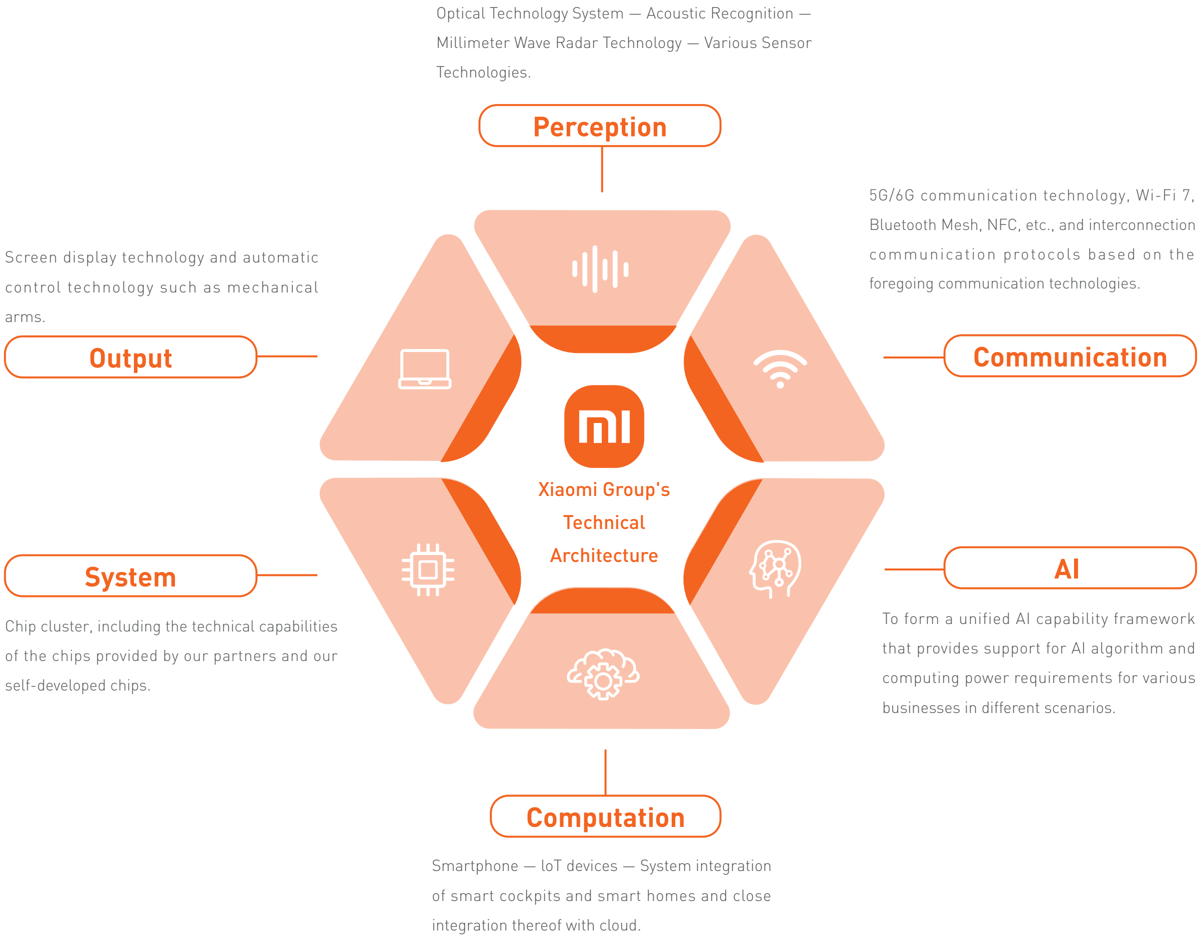
Xiaomi has invested in a company that focuses on the R&D of Gallium Nitride (GaN) chips. Compared with conventional Silica chips, a GaN chip's carbon footprint from production to delivery is less than one-tenth of that of a Silica chip, and can reduce as much as 30% CO_2e emissions during the use phase. The combined result is a reduction of 4kg CO_2e emission per GaN chip versus the conventional Silica version. With a wider application of GaN, this innovation is expected to help avoid 2.6 billion tons of CO_2e emissions into the atmosphere by 2050. In August 2022, the company already announced its first milestone of reducing 100,000 tons of CO_2 emissions.

12 Natural disaster red/orange warnings: According to the Emergency Response Law of the People's Republic of China, the warning levels for natural disasters, accidents, and public health emergencies can be classified into four levels: Level 1, 2, 3, and 4, based on the urgency, development trend, and potential harm caused by the emergency, with Level 1 being the highest level. The red/orange warnings correspond to Level 1/Level 2 respectively.

13 To learn more about Xiaomi's Green Finance Framework, please visit: https://ir.mi.com/static-files/9ac81f60-9d7e-4971-a017-7a2189b59f3e

Exploration and Accessibility of Technology

Xiaomi considers the innovative technological core of its products and services as an important element in the sustainable business operations of the company. The development of Xiaomi's technology system began with an integrated technological innovation, soon entered into autonomous technological innovation, and continued delving into disruptive technological innovation to achieve mastery and domination of key technological links. We explored the limits of technology, pursued the optimal solution of technology and interaction, and establish an overall technical architecture with wide coverage, great span, and depth around six levels: Perception, Communication, AI, System, Computation, and Output.



Xiaomi Group's Technical Architecture

With the support of an improved technological framework, Xiaomi is committed to integrating multiple technological capabilities, increasing research and development investment, and providing users with more convenient, affordable, and widely applicable products and technologies. As of the end of 2022, Xiaomi has established 10 R&D centers and over 400 labs worldwide, and employed a total of 16,171 R&D personnel — an increase of 10.8% from the previous year. Meanwhile, our R&D expenses reached RMB16 billion in 2022. In the past five years (2017–2021), Xiaomi's R&D investment has grown at an annual compound rate of over 40%, and we plan to invest more than RMB100 billion in R&D over the next five years (2022–2026), including promoting interconnectivity, facilitating inclusive technology, narrowing the digital divide, strengthening the protection of minors, and continuing to focus on STEM (Science, Technology, Engineering, Mathematics) education and inclusive development.

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At the same time, in the rapid development and transformation of social digitization, we are committed to collaborating with partners to provide technology education for a wider audience to promote digital inclusion, in additional to technological equality through extensive technological research and development as well as application. Over the past decade, Xiaomi has continuously delivered leading technology products to a broader user base with deep underlying technological innovation and optimal efficiency throughout the entire chain. Xiaomi has also made unique contributions to global digital inclusion and technological equality development by using the Xiaomi Ecosystem product portfolio to create the world's leading consumer AIoT platform. Based on this, we will promote the upgrade and evolution of the Xiaomi technology ecosystem, no longer just realizing everything interconnected, but further promoting human-centric technology with an aim of offering interconnectivity between people and our world.

Technology Exploration

Adhering to our technology-orientation principle, Xiaomi continues to strengthen its R&D system and conducts research on various application scenarios in the field of technology. This year, our breakthrough technological R&D achievements related to sustainable development include:

Human-centric Technology

- Xiaomi has created a new architecture with industry-leading software and hardware integrated image computing technology, including fused optics, color engine, biometric perception, acceleration engine, ecological engine, and image signal processing (ISP), creatively presenting mobile imaging with a rich human touch;

- Xiaomi's AI Assistant has been enhanced with human empathy and emotional support functions. We have collaborated with authoritative universities' psychology departments to develop a new emotional classification system using Cognitive Behavioral Therapy (CBT), covering a total of 88 subcategories of emotions across three major emotion types. This enables Xiaomi's AI Assistant to provide more emotional experiences in its conversation responses with users.

Artificial Intelligence

- Xiaomi's artificial intelligence (AI) research and development covers the entire system of technology including visual, acoustic, speech, natural language processing (NLP), knowledge graph, and machine learning. This year, we have made significant breakthroughs in array microphones, voice wake-up, automatic speech recognition (ASR), speech synthesis, and voiceprint recognition. In the ICASSP[14] 2022 Multi-modal Information based Speech Processing (MISP) Challenge, we won the championship in multi-modal voice wake-up technology and second place in multi-modal speech recognition technology.

Future Solutions

- This year, Xiaomi has collaborated with upstream and downstream enterprises, as well as universities and research institutions in the field of intelligent manufacturing, and we were the first enterprise in China to take the lead in establishing a high-level innovation consortium — the 3C Intelligent Manufacturing Innovation Consortium. The aim is to build five research centers and one achievement transformation center covering intelligent equipment, intelligent robots, intelligent processes, intelligent manufacturing systems, and system standards, to meet the needs of the industry.

14 ICASSP (International Conference on Acoustics, Speech and Signal Processing) is the largest and most comprehensive international conference in the field of signal processing and its applications. It is the flagship conference of IEEE (Institute of Electrical and Electronics Engineers).

- Xiaomi's autonomous driving technology utilizes a full-stack self-developed algorithm layout strategy that covers core autonomous driving technology fields such as perception prediction, high-precision positioning, decision-making planning, and more. It has also built a self-developed closed-loop data system that efficiently drives core algorithms and product function iterations. During Xiaomi's autonomous driving tests, the test vehicles have achieved unprotected automatic U-turns, avoidance of accident vehicles, and automatic parking with mechanical automatic charging, among other parking scenarios.

Enhancing Accessibility of Technology

Xiaomi has committed to keeping its hardware net profit margin below 5%, reducing the price threshold for many of its technological products, including smartphones. At the same time, Xiaomi has expanded its retail stores to over 70 markets worldwide, breaking economic and geographic disparities in the technology hardware sector. Xiaomi acknowledges the value of inclusivity, diversity, and equality, and upholds its mission to let everyone in the world enjoy a better life through innovative technology. Xiaomi respects personalized need and strives to make its products as equal, inclusive, friendly, and accessible as possible so that everyone can benefit from the support of Xiaomi's technology and enjoy a better life. In 2022, Xiaomi collaborated with Microsoft China and the Shanghai Youren Foundation to release the Inclusive Design Principles Handbook[15] to promote the concept of inclusive design in technology and promote the development of accessible technology.

Interconnected, Open and Shared Technology Ecosystem

With deep underlying technological innovation and optimal end-to-end efficiency, we continue to deliver leading and unique technology products to a wider user base. The number of Xiaomi's AIoT-connected devices reached 589 million, with 11.6[16] million users having five or more devices connected to Xiaomi's AIoT platform.

Xiaomi has established an open and shared IoT ecosystem and a full-scenario voice control ecosystem in rich interconnection and open-sharing scenarios. In December 2022, the monthly active user (MAU) of Xiaomi's AI Assistant reached 115 million, with cumulative interaction times reaching 215.8 billion, and is lodged in 5,312 Xiaomi products. In multi-device scenarios, Xiaomi's AI Assistant saves redundant computing, perception, and hardware devices through functions such as cooperative wake-up, unique response, and centralized control.

Inclusive Technology

Xiaomi has always been committed to promoting the concept of inclusive technology through technological development and application. We strive not only to enable people with disabilities to enjoy the benefits of technology, but also to provide technology experiences and tools that are more in line with the needs of users who face difficulties in life due to cognitive limitations, social exclusion, and situational disabilities[17]. We insist on building a Human-centric technology and seek to understand the inconveniences caused by various disabilities in life from a more diverse perspective, and constantly deepen our understanding of the needs of people with disabilities and their situational contexts.

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15 Please visit our Sustainability page to read the Inclusive Design Principles Handbook: (https://www.mi.com/global/about/sustainability)

16 Data as of December 31, 2022, excluding smartphones, laptops, and pads.

17 Situational disabilities: refers to disabilities that arise from specific situations or environments that affect people's ability to interact with technology.

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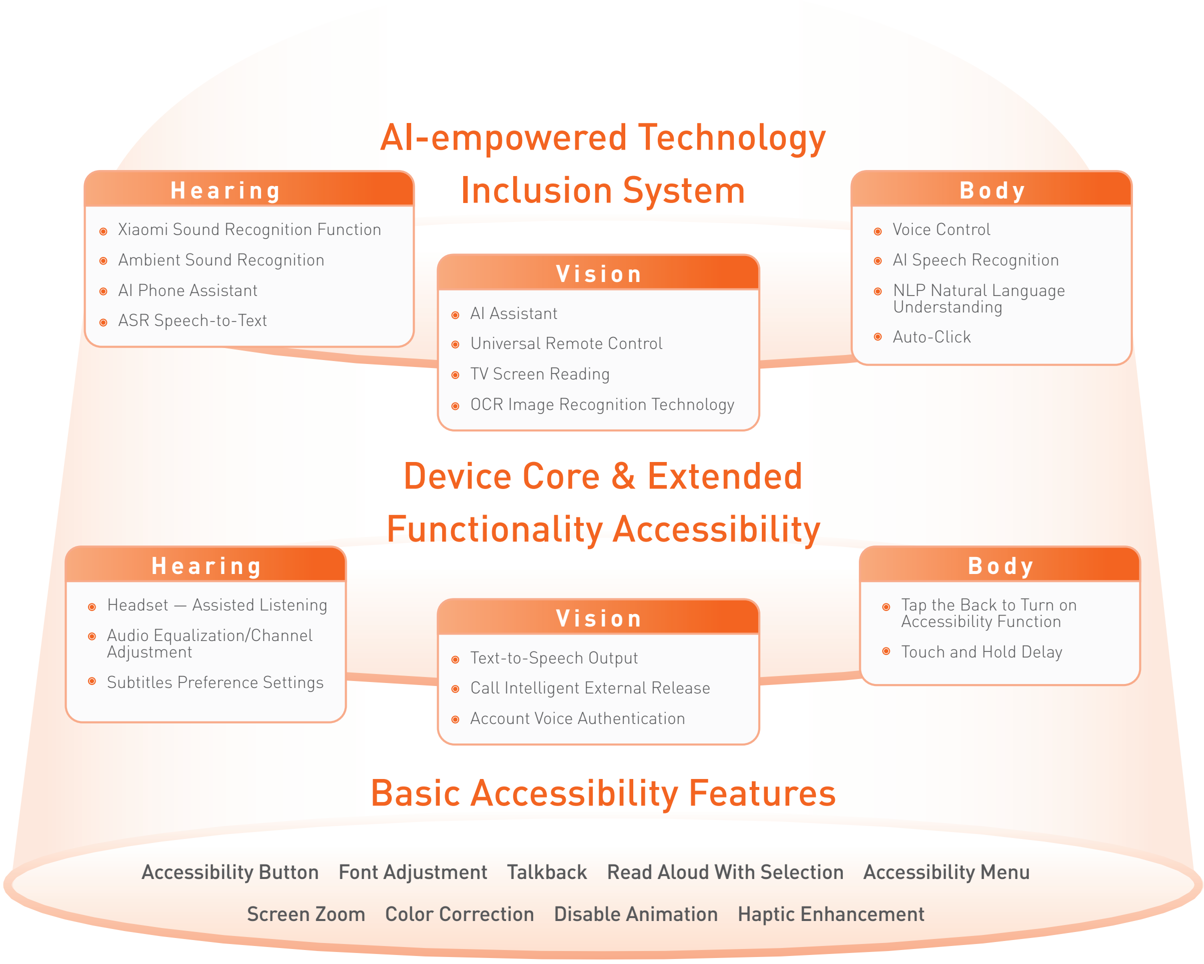
In recent years, we have started developing basic accessibility features for our products and gradually extended them to cover more advanced features. We are committed to creating smartphones that are easy for everyone to use, access information, and meet their interconnected needs, as well as convenient and interconnected smart homes, providing users with a fully accessible interactive experience from basic to advanced AI features. This year, Xiaomi's Human-centric Accessibility Support System project won the Top 10 Annual Business for Good Award in 2022, reflecting Xiaomi's innovation in social value and active practice of the concept of business for good.



Inclusive Technology Concept Architecture and Main Functions of Xiaomi Group

Create Your Own Voice for Users with Speech Impairments

In 2022, we applied our self-developed voice adaptation algorithm and super-realistic voice synthesis technology to the field of accessibility. We developed a unique customized voice for the vocally disabled user A Juan that matches his voice characteristics, enabling A Juan to communicate and express himself with his own voice. With the promotion of this project, more than 200 Xiaomi employees donated to the Xiaomi Voice Typing Donation Project and participated in the technology accessibility innovation activities. This project was selected in the 2022 CCF Technical Public Welfare Case Studies Collection of the China Computer Conference (CNCC) in 2022.

Furthermore, to provide a better understanding of the needs of speech-impaired individuals to the general public, we produced a documentary called OWN MY VOICE. Additionally, with volunteers' consent, we motivated over 6,000 volunteers to donate their voices, creating a diverse and rich voice donation library. This has increased the likelihood of speech-impaired individuals obtaining voices that are more closely matched to their physiological conditions.

Protection of Minors

Xiaomi attaches great importance to the protection of minors when using our products. We have developed the Xiaomi Children's Information Protection Rules[18], which clearly state that when collecting, using, transferring, or disclosing the personal information of minors, we must inform and obtain the consent of their guardians. These rules also specify the information collected and its usage on smartphones, smart TVs, and audio devices.

At the same time, we continue to develop systems and product features to protect the privacy of minors.

- Privacy protection function of Mi Bunny children's watch — Mi Bunny children's watch protects children's information security through system management and data encryption. Through system authorization management, we deny unauthorized third-party development system permissions to prevent the risk of user information leakage from the source. We also protect children's information security through local data encryption, data transmission encryption and Xiaomi cloud data encryption technology.

Digital Inclusion

Xiaomi Group values the importance of gender, religion, ethnics, and moral equality in the application of AI technology and strives to eliminate discrimination arising from the use of technology. We have established an AI Ethics Committee to ensure that the Xiaomi Group complies with relevant ethical guidelines and regulatory norms in the application of AI technology.

Increase the proportion of inclusive words used in Xiaomi's AI Assistant's Chinese-to-English translation function

In recent years, the concept of inclusive language[19] based on the pursuit of appearance, professional equality and gender has been gradually extended and applied to the field of machine translation. In 2022, we will adjust the translation logic and targeted AI training to make Xiaomi's AI Assistant's Chinese-to-English translation function more inclusive of the translation context needs of diverse users.

18 Xiaomi Children's Information Protection Rules: https://cdn.cnbj1.fds.api.mi-img.com/mi-mall/f516fe9e2c01.html

19 Regarding Gender-Inclusive Language, please refer to the United Nations Gender-Inclusive Language Guidelines: https://www.un.org/en/gender-inclusive-language/guidelines.shtml.

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Responsible Product and User Experience

Guided by the principle of Implementation Based on User Feedback, Xiaomi continues the path to pursue Better User Experience. We are committed to combining quality and efficiency to deliver a more efficient, better and more accessible consumer and product experience for users. We also protect the privacy of our users throughout the lifecycle of our products and services, and we continue to create a safer and more secure environment for our users by formulating stricter regulations and adopting more advanced technologies. At the same time, we believe that the reuse of resources and effective recycling are the keys to responsible manufacturing, and will continue to strive to build a diversified service network and improved recycling mechanism to reduce the generation of e-waste and actively transform to a circular economy.

Product and Service Quality

We advocate the Big Quality Concept of User-centric, Integrating Product Quality, User Experience and Service Quality, with Full Participation and Closed-loop Management Across the Lifecycle, and always implement the management concept of Quality Is The Lifeline of Xiaomi. We constantly persist to provide users with the ultimate product and service experience. The Xiaomi Group Quality Committee (hereinafter referred to as "Quality Committee") coordinates the quality management of the whole Xiaomi Group, formulates the Xiaomi Group's quality policy, objectives, quality management mechanism and requirements; On this basis, each business line continuously improves the quality management methods and measures based on the ISO 9001 quality management system standards. We have disseminated the Xiaomi Group Quality Manual and require all employees to participate in, comply with and continuously improve the quality management process of the whole life cycle of products and services.

During the year, our smartphones, laptops, smart TVs, home appliances, smart hardware, Xiaomi Youpin, and China service business unit obtained or maintained ISO 9001 management system certification.

Product Quality Management

Xiaomi always insists on providing amazing products with honest prices. We continue to improve product quality and user experience by refining the management systems, improving the management process, and promoting the quality of the supply chain.

Optimization of quality management system for smartphone products
This year, we have established a cross-departmental quality management committee, with a comprehensive focus on managing product audit, standards, reliability, supply chain and other related aspects. This initiative aims to increase management efficiency and enhance the quality of our products.

In 2020, Xiaomi introduced the Xiaomi Group Product Recall Management System and has continued to use it. This year, the company did not experience any significant product recall events due to health and safety or other issues.

During the year, three projects that we co-evaluated with our partners were awarded one Platinum Award and two Gold Awards at the 47th International Convention on Quality Control Circles (ICQCC).

Quality Improvement Measures

User Experience Enhancement

This year, the Xiaomi smartphone department has completed 9 major projects and 118 minor projects related to improving user experience, covering three major areas of performance, power consumption, stability and signal communication, as well as multimedia experience. Among them, in order to address the issue of users having difficulty viewing the screen clearly under sunlight, we have solved the pain point by lowering the maximum brightness threshold, evaluating the maximum brightness retention time, and raising the upper limit of screen brightness.

We conducted a comprehensive analysis and improvement on the issue of wearable products causing allergies to users. This year, we collaborated with experts from fields such as medicine, environmental science, and biology to conduct material research and development for allergy prevention in wearable devices. We identified substances that cause allergies in the products and fully disassembled the products to understand the components and structures containing allergenic substances. Based on this, we reduced the number of allergenic substances through material replacement and structural adjustments. The amount of UV glue used in wearable devices was reduced by approximately 88%. We also established a list of substances that cause allergies and toxicity in products based on the research results, which will feedback to our R&D process for product enhancement.

Understanding User Needs

Xiaomi actively listens to user feedback and continuously improves its product quality from the perspective of user needs. This year, relevant departments of Xiaomi jointly organized a series of activities such as the Listening Program, which involved software and hardware engineers visiting stores for face-to-face user communication and to understand their actual needs. These user needs were then incorporated into the design of new products. Over 400 engineers from various product lines participated in the Listening Program.

Supplier Quality Management Control

To further articulate Xiaomi's quality management philosophy to suppliers, Xiaomi's various product lines and related departments collaborated with suppliers from different regions in this year's Quality Month campaign to organize a series of Quality Enhancement Theme Factory Visits activities. These activities aimed to have in-depth discussions with suppliers on quality-related issues encountered by users, and to promote improvements in the suppliers' production quality. Xiaomi has integrated product quality into supplier performance management and conducts monthly quality evaluations of suppliers.

This year, Xiaomi has strengthened its management of critical information changes among suppliers information management and updated the supplier quality agreement. If suppliers make any changes to the six production factors — personnel, equipment, materials, methods, environment, and measurement — they must submit them through the information system to Xiaomi for review, verification, and approval. This is to monitor, manage, and promote suppliers' compliance with supply quality. In 2022, we reviewed over 4,000 change items through this channel.

Improve Quality Awareness

We attach great importance to the cultivation of employee quality awareness. This year, we have conducted online and offline quality training courses, The curriculum covers the Xiaomi Group's quality system, product safety compliance requirements, quality management system, quality management tools, etc., to help employees understand Xiaomi's core values in quality and improve their quality awareness and professional ability. The Group Learning and Development Department and the Quality Committee have jointly created the Quality Online Course, providing more than 20 professional quality courses for all Xiaomi employees, with over 20,000 people participating in the learning. At the same time, we have conducted 25 offline training sessions on product safety compliance, with about 6,000 people participating in the learning.

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In 2022, Quality Committee, in conjunction with more than 20 business departments, held the third Xiaomi Quality Month. We planned a total of 52 Quality Month activities under the theme of Improving User Experience and Fulfilling Quality Responsibility, including quality knowledge sharing, listening to user feedback, quality-themed factory visits, quality star selection, etc.

Service Quality Management

We continuously optimize our service quality management system to improve users' interactive and service experiences across various scenarios such as retail, customer service, and after-sales. This year, we launched a service business transformation project to achieve comprehensive improvement in the user service experience through four dimensions: on-site service network management, self-built customer service team, sales and service integration project, and digital capability building. Based on the service business transformation plan, we have adjusted the service organizational structure and functions according to the five target dimensions: Responsible for User Experience, Responsible for Service Delivery Quality, Responsible for Service Store/Personnel Technical Capabilities, Responsible for Service Store Spare Parts Supply, Responsible for Product Lifecycle Service Policies and Costs. We have established key execution modules including stores, on-site, logistics, customer service technology, spare parts, service operation, and implemented a first-responder system for user service[20] to ensure the high-quality delivery of Xiaomi services.

We have achieved a comprehensive improvement in the user service experience by building digital capabilities throughout the entire user service process, from user demand initiation to service completion. On the user side, we have achieved full transparency and visibility of service process pricing, timeliness, progress, and service personnel information. As a result, customer net satisfaction has increased by 9.5% compared to 2021[21]. On the engineer's end, the use of a brand new digital tool platform has significantly improved the efficiency and experience of the entire service order process. Work order operation efficiency has increased by 50%, and work order fulfillment time has been accelerated by 44%.

Key Achievements in Service Quality Management

Retail Services

We have continuously strengthened the service capabilities of our offline stores, expanded the coverage of our service network, and improved the convenience of our user services. As of the end of this reporting period, we have:

- 1,937 sales and service integrated stores in mainland China that have full-service capabilities such as sales, returns and exchanges maintenance, and recycling, a year-on-year increase of 43.1% compared to 2021. There are nearly 5,000 engineers holding Xiaomi's professional technical qualification certificates stationed in offline stores;

- The customer satisfaction survey on service convenience showed an improvement of 8.3% by the end of 2022 compared to the beginning of the year.

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20 First-response accountability system for user service: We require that the first person who receives a user service request should assist the user in completing all subsequent service processes based on the service policy and handling procedures until the issue is resolved or a clear response is provided. They should not stall, defer, or provide superficial responses.

21 Data of mainland China market.

On-site (door-to-door) Services

We have expanded our on-site services coverage area by increasing the number of on-site service points (infrastructure for product installation, maintenance, and recycling services). As of the end of this reporting period, we have achieved the following:

- We have built a total of 2,628 on-site service points in mainland China, representing a 40.4% increase compared to 2021. Nearly 16,000 engineers holding Xiaomi professional technical qualifications are employed at these on-site (door-to-door) service points;
- The on-site service capability has covered all urban and rural areas in mainland China.

Delivery Services

We have enhanced the efficiency and quality of our delivery services by optimizing product storage planning, reducing product delivery turnover times, and increasing direct delivery. During the current year, we have achieved the following:

- In mainland China, our same-day order fulfillment rate has reached 99.99%, resulting in 85% of orders being delivered within 1 day.

Complaint Management

We aim to swiftly and effectively handle user complaints promptly and efficiently mobilizing internal resources to respond to user complaints. We actively transform every communication with users into positive value and ensure that all types of user issues are accurately, promptly, and reasonably resolved, while continuously improving the user experience process. At the same time, we use multi-channel and multi-dimensional user complaint analysis management to conduct reverse effect verification through mechanisms such as improvement program and follow-up mechanisms, forming a closed-loop management of user complaints, and promoting the continuous improvement of the user experience.

Overseas Service Management

Xiaomi conducts business activities in over 100 markets. We continue to implement a strategy of headquarters requirements + localized execution, taking into account Xiaomi's service quality requirements and local user cultural habits, and assign responsible personnel with engineering expertise for each regional network. This year, we will continue to promote the development and application of digital service systems, expand the coverage of after-sales services, and improve our overseas service quality by building after-sales service capabilities.

Information Technology System Update

This year, our integrated overseas service system (Issue to Solution Platform, ISP) has achieved 100% coverage in all global operating regions. By restructuring the management processes of the customer service, after-sales, and spare parts business modules within the system, we have refined management processes and responsibilities down to the individual level, effectively improving the accuracy of service management.

Product Delivery

This year, we have established Overseas Warehouse Hubs in some overseas regions to store products. By adopting a mode of transporting goods to the warehouse location first and then shipping them to customers, we have shortened the delivery time of overseas products. Taking the Spain Hub as an example, the new model has reduced the overall delivery time by approximately 71% compared to the previous method of shipping directly from mainland China to overseas locations.

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After-sales Service

We are continuously improving our after-sales service coverage and capabilities. This year, we have expanded our overseas after-sales service network to 11 new markets, providing services in four new languages and operating three new contact centers. We have established 2,738 stores with after-sales service overseas, an increase of 343 from 2021. Additionally, we have increased our number of repair sites by 24.8% compared to 2021.

We have also made efforts to improve the efficiency of our overseas customer service by using the "answer rate"[22] of live customer service representatives as an employee performance metric to improve response times. We also review this metric weekly to discuss ways to improve it and track progress. This year, we monitored customer service levels in real-time to adjust staffing levels during peak periods of high demand, and implemented a language-specific service support system to provide cross-regional support during service backlogs.

Data Security and Privacy Protection

Transparent data management is the foundation for building users' trust, and protecting user data privacy has always been one of Xiaomi's core values. We develop and update our Xiaomi privacy policy based on core principles contained in global privacy frameworks (such as those published by the OECD and APEC) and privacy laws (such as the Personal Information Protection Law of the People's Republic of China, GDPR, LGPD, CCPA/CPRA)[23]. We build a trustworthy privacy management system for users and create more transparent artificial intelligence.

Our Principles of Privacy Protection

User Data is Controlled by User

At Xiaomi, we firmly believe that users have the right to know and control their privacy. Users always have the right to independent control over their data, including the right to access, correct, or delete personal data shared with us. We only collect user data with their authorized consent. Users can request access, correction, or deletion of the information we collect at any time and from anywhere through Privacy Support.

Security Protection with Full Coverage

We adhere to an open and transparent policy that enables users to fully understand the types of information we collect and how we use it. The Xiaomi Privacy Policy applies to all Xiaomi devices, websites, or applications, covering Xiaomi Group and all of its subsidiaries. We have also developed independent data security and privacy protection policies for specific Xiaomi products or services.

Open and Transparent Data Management

At Xiaomi, we hold ourselves to the highest standards to minimize the collection and retention of data, and only collect the necessary information for specific, clear, legitimate, and legal purposes. We ensure that this information will not be processed further beyond the aforementioned purposes. Our AI algorithms will not upload any user data without obtaining their permission.

Conforming to Global Privacy Law

Privacy and security protection have always been the key concepts of our product design. We devote ourselves to establishing a standardized, and progressive privacy impact assessment procedure to ensure that our products and services are compliant with data protection laws and regulations.

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22 Answer rate refers to the percentage of successful connections made when customers call our customer service hotline.

23 GDPR, LGPD, CCPA/CPRA refer to the General Data Protection Regulation, the Brazilian General Data Protection Law, the California Consumer Privacy Act, and the California Privacy Rights Act respectively.

We do not sell any personal information to third parties. We ensure that personal information is shared only for legitimate, lawful, necessary, specific, and clear purposes required to provide services to users. Xiaomi will conduct due diligence on third-party service providers when necessary and sign contracts to ensure compliance with data security and privacy protection laws applicable to users' jurisdictions.

This year, in order to further promote transparency and openness, we have released or updated the MIUI 13 Security White Paper, MIUI 13 Privacy White Paper, Xiaomi IoT Privacy White Paper, and Transparency Report (2021). For more information on Xiaomi's data security and privacy management practices, please refer to:

Xiaomi Trust Center:	https://trust.mi.com/
Xiaomi Security Center:	https://trust.mi.com/misrc
Xiaomi Privacy:	https://privacy.miui.com/en/#/

This year, we have continued to improve our management structure, product testing processes, product features, and privacy awareness training.

Security Governance Structure

Xiaomi Group has established the Information Security and Privacy Committee (hereinafter referred to as the "Security Privacy Committee") to take responsibility for the overall management of information security and privacy protection. The Security Privacy Committee discusses and approves policies and norms related to data security and privacy, evaluates and provides guidance on data security and privacy risks in business operations in accordance with relevant regulations. The Board regularly reviews data security and privacy-related risks, response measures, and their effectiveness, and proposes corresponding management recommendations. The Security Privacy Committee reports on the operation of the Group's privacy system to the Board regularly, assisting the Board in managing the security and privacy risks faced by the group. In 2022, we achieved 100% coverage of technical activity sites through ISO 27001 Information Security Management System (ISMS) certification.

Security Control Measures

Security Incident Response Mechanism

We have established a sound mechanism for responding to data security and privacy incidents, clarifying the event response team, reporting, and notification processes for data security and privacy incidents. We have also developed data security and privacy incident scenario plans and regularly conduct drills to enhance our emergency response capabilities.

In addition, we have set up a public privacy issue feedback channel (https://privacy.mi.com/support/?locale=en-us) for users, employees, partners, and the public to report privacy concerns.

Supplier and Partner Due Diligence

We attach great importance to the management of data security and privacy protection of our suppliers and partners. For partners with whom we share personal information, we conduct reasonable inspections of their data security environment and sign strict data processing agreements with them. We also require third parties to take sufficient protective measures for user information to ensure compliance with Xiaomi's data security and privacy protection principles.

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During the supplier on-boarding phase, suppliers must follow Xiaomi's data security and privacy protection review process for declaration and evaluation. If they fail to pass, we will require the supplier to make improvements until they meet our standards before entering into cooperation with Xiaomi. During the cooperation period, we conduct regular audits of supplier data security and privacy protection practices. If issues are discovered, we require the supplier to suspend cooperation and make corrections before resuming business cooperation.

Product Security Development Lifecycle Process

We adhere to the principles of Privacy by Design and Security by Default in the product design and development phase. This year, we have continued to upgrade the Security Development Lifecycle (SDL) process, and have clarified the review process for key points in product design, including:

- Concept phase — including security development processes and security requirement training;
- Planning phase — determining the security level of the product based on the impact on users if privacy and security are compromised, and evaluating the product security technical requirements according to the level. If the product solution does not meet the evaluation requirements, adjustments must be made until it is qualified for approval;
- Design phase — including security design baseline and threat modeling settings;
- Development phase — generating security coding specifications and performing code security scanning;
- Verification phase — Security testing based on vulnerability severity level is embedded in each product testing stage. Only products that pass the testing can proceed to the device firmware and software development stage. Before the product is completed and launched, it must pass security testing again to ensure it meets the security requirements;
- Release phase — conducting the Security Blue Army plan and completing security incident response testing;
- Lifecycle phase — continuously improving and maintaining product privacy and security.

Product Privacy Feature Upgrade

In 2022, MIUI14 launched several features that adopt on-device privacy technologies to maximize the local processing of sensitive data and enhance product privacy security. These features include:

- On-device Text Recognition supports offline text recognition, which means that the entire process of recognizing and extracting text is done locally without uploading any data to the cloud, thus providing maximum protection for user-sensitive data;
- In video conferences, the process of real-time conversion of English speech to Chinese subtitles is done locally without uploading any data, achieving zero data transfer;
- Maximum respect for user autonomy, where all system apps except for 8 basic applications such as telephone, SMS, and contacts, can be freely uninstalled.

IoT Device Security and Privacy Assessment

Xiaomi has released the Consumer-grade IoT Security Baseline[24], which includes security requirements that different security-level AIoT devices must meet. The security requirements cover six security domains: Device Hardware, Software, System, Communication, Data, and Business Logic. The purpose is to ensure that Xiaomi's ecosystem manufacturers provide secure products and services, comply with our commitment to user privacy, and protect devices from threats of malicious software. In 2022, we completed 334 rounds of security testing before new product launches, block-intercepting and mitigating 625 security issues; we also completed security testing for 109 product firmware iterations and intercepted 67 security issues.

Training and Communication

We place great emphasis on data security and privacy protection culture, and organize compliance awareness enhancement activities every year, including security and privacy awareness month, phishing drills, training courses, online assessments, and more. This year, our data security and privacy protection training activities covered 100% of employees, interns, as well as some outsourced employees, suppliers, and partners.

This year, we provided customized training materials and activities based on the attributes of employees, including:

- Conducting four phishing email drills, covering all employees and interns
- Providing a 2.5-hour online course on security awareness, with a 92% pass rate for all employees
- Conducting 10 security technology and privacy training camps, with a total attendance of over 1,500.

In addition, we conducted specialized data security and privacy protection training for suppliers and partners, covering 56 companies and a total of 467 participants.

Certification and Awards

We continuously undergo industry-leading privacy protection certification and testing to ensure the effectiveness of our privacy protection capabilities and measures. This year, we have obtained SOC 2 Type I certification (Third-party Independent Audit) and maintained the validity of the following third-party audit certifications that we have previously received[25]:

ISO/IEC 27001	Information Security Management Standard (ISMS)
ISO/IEC 27018	Protection of personally identifiable information (PII).
ISO/IEC 27701	Privacy Information Management System (PIMS)
TrustArc GDPR Validation Report	Including MIUI and IoT platform
TÜV Rheinland Enhanced Privacy Protection Testing	MIUI Operating System

In addition, our Electric Scooter 4 Pro has obtained UL IoT Security Gold Certification, our Robot Vacuum-Mop 2 Overseas Version has obtained TÜV Rheinland Product Network Security and Privacy Protection Standard Certification, and our Television TV Stick 4K SE has obtained ND ETSI EN 303 645 V2.1.1:2020 Compliance Test.

24 Please visit our Sustainability page to read Xiaomi Consumer-grade IoT Security Baseline: https://www.mi.com/global/about/sustainability
25 For more information on all of Xiaomi's privacy certifications, please visit: https://trust.mi.com/en/compliance.

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Circular Economy and Electronic-waste

At Xiaomi, responsible product end-of-life management plays a vital role in advancing our transition toward a circular economy and minimizing electronic waste, and it requires intervention and innovation up and down our value chain — from product design and manufacturing, to enhancing product longevity, reuse, recycling, and dismantling. We strictly comply with applicable laws and regulations on electronic waste in all the markets we operate, and take a practical approach to learn, understand and dive deep into local electronic waste recycling ecosystems, so that we can implement tech-empowered solutions to enable more effective and efficient management of e-waste to deliver our commitments and targets on product end-of-life management. Xiaomi abides by the Basel Convention and pledges not to export electronic waste to non-OECD countries.

This year, Xiaomi directed approximately 4,500 tons of electronic waste such as smartphones to recycling globally. Over the next five years (from 2022 to 2026), we are committed to achieving an accumulative recycling volume of 38,000 tons of e-waste, and using 5,000 tons of recycled materials in our products.

Managing electronic waste at Xiaomi India
Xiaomi India manages the recycling of e-waste from smartphones, smart TVs, and laptops in adherence to the Extended Producer Responsibility (EPR) requirements of India. In 2022, we exceeded the target for recycling smartphone and smart TV products set under our EPR obligations. Additionally, Xiaomi India actively collaborates with schools, charitable organizations, and distribution/retail networks in its operational areas to carry out various activities aimed at raising awareness about the environmental hazards of electronic waste and the importance of managing it.

Product Design and Production

We are incorporating renewable materials into our products during the design phase to promote the development of a circular economy. To improve the recyclability of our products, we are constantly exploring opportunities to replace product components with biobased or recycled materials. This year, we have:

- Used bio-based high polymer materials in certain components and accessories of our smartphones, with a biocarbon content of over 30%
- Increased the use of recycled metals, including aluminum, gold, and copper, in the components of our smartphones
- All of our smartphones contain components made from recycled plastic produced from discarded ocean fishing nets.

We have also reduced the usage of materials in our products without compromising on their quality to improve their disposal efficiency in the disposal stage. This year, we have:

- Reduced the thickness of the back cover structure of some smartphones, reducing the plastic usage in the back cover assembly by about 40%;
- Through integrated design, reducing the number and weight of screws, sponges, and metal components in our air conditioning products, with an average reduction of approximately 620 grams of related raw materials used per unit compared to the previous generation;
- Tested and evaluated our Mi Smart Electric Toothbrush product in terms of recycling, recycled material verification, high energy efficiency verification, durability, sustainability, and toxic and hazardous substances management of the products and packaging materials. We have obtained the SGS Green Product Certification.

Refurbishment and Reuse

We are committed to promoting the development of a circular economy by continuously carrying out used product refurbishment projects. This year, our renovation factory has refurbished approximately 94,000 smartphone products, 5,600 electric scooter products, and 6,200 smart television products, all of which were sold as certified refurbished products.

Extending Product longevity

Enhancing Durability

We consider material durability when selecting materials for our products. For example, we have developed robust and wear-resistant ceramic materials, as well as synthetic silicone leather materials that are organic, wear-resistant, anti-fouling, anti-mildew, and resistant to acid and alkali. These materials are used in many of our smartphone products. We have established testing standards for dust-proofing, waterproofing, and drop resistance that exceeds international standards. This year, Xiaomi has released a long-lasting battery with full charging and discharging capabilities, utilizing battery health technology to extend the battery's lifespan by approximately 25% compared to previous versions.

Warranty Services

Xiaomi provides our users with convenient repair services (please refer to the Key Service Achievements section for more details). We offer repair parts and materials at reasonable prices to improve the maintainability of our products. In addition, we reserve spare parts for products that are no longer sold to better meet the repair needs of our users.

Recycling and Disposal

We take responsibility for the collection and recycling of electronic waste in all operational regions, ensuring that electronic and other waste is properly treated through our own facilities and third-party collaborations. We strictly assess the certification qualifications of our partners, including Quality Management System (ISO 9001), Environmental Management System (ISO 14001), Information Security Management System (ISO/IEC 27001), and Certifications for Zero Landfill and Responsible Recycling (R2)[26] of international electronic waste. During the collaboration process, we make specific agreements with our partners regarding labor rights, a safe and healthy work environment, and the prohibition of illegal waste exports, ensuring that our partners handle waste refurbishment or disposal in a reasonable and legal manner.

We continue to expand our Trade-In program by increasing the types of recyclable products and coverage of recycling services, establishing three collection methods including in-store, door-to-door, and mail-in services to encourage users to recycle their products. This year, we launched the Trade-In program on our official website in part of our European markets. We also work with qualified third parties to dispose of waste generated during the repair process, such as discarded electronic components. In 2022, 100% of these wastes were properly treated.

Reducing Hazardous Substances

Xiaomi strictly manages the hazardous substances that may be present in our products and production processes, providing consumers with safe, secure, and environmentally-friendly products while improving the efficiency of product recycling. We strictly comply with domestic and foreign laws and regulations, such as the Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS), the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), and the Directive on Packaging and Packaging Waste (94/62/EC), which restrict hazardous substances and chemicals in products and their packaging.

26 R2: the Responsible Recycling of electronic products.

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We strictly control the use of hazardous substances in our product manufacturing process in accordance with international standards[27]. We have established a process for pre-screening and tracking hazardous substances, and voluntarily developed plans to reduce the use of potentially hazardous substances, including PVC, brominated flame retardants (BFRs), beryllium, antimony, and other substances as required by law. We collaborate with our supply chain to achieve this goal.

We continue to develop corporate standards that are more stringent than regulatory requirements and require suppliers to strictly adhere to them. This year, we updated the Product Environmental Hazardous Substance Management Guidelines and revised the standards for volatile organic compounds (VOCs) produced by suppliers during production processes such as product coating and packaging printing, based on the requirements of the On-site Inspection Guidelines for Volatile Organic Compounds in Key Industries (Trial). We also developed corresponding operating specifications to assist suppliers in meeting these standards. At the same time, we have proposed reduction plans for the use of three types of substances by suppliers and continue to monitor the use of hazardous substances.

This year, we have implemented measures to reduce harmful substances in product materials, production processes, and packaging materials, including:

- The synthetic silicone leather material used in our smartphone products is produced without the use of DMF industrial organic solvents, effectively reducing the risk of skin sensitization for users while ensuring environmental and worker health and safety

- We have adjusted the structure of our product packaging film to eliminate the use of adhesives, reducing the emission of harmful substances in the adhesive

- In some regions, we have replaced mineral oil ink with soy ink for printing on packaging materials, completely eliminating the use of mineral oil-saturated hydrocarbons (MOSH) and mineral oil aromatic hydrocarbons (MOAH) in the packaging. We will gradually expand this measure.

27 Relevant standards include the prohibition of using substances that deplete the ozone layer in all applicable products; restrictions on the use of persistent organic pollutants (POPs) in accordance with the Stockholm Convention on Persistent Organic Pollutants; gradual phase-out of relevant materials in accordance with RoHS and REACH regulation.

Creating Shared Success

At Xiaomi, we believe that growth is only meaningful when it is shared with our stakeholders, and we cultivate partnerships that foster mutual success. As a global technology company, our sophisticated supply chain encompasses everything from raw material extraction and processing to assembly, logistics, sales, distribution, recycling, and disposal. We work closely with our business partners, providing joint governance and tech empowerment, to ensure stability and continuity throughout the entire system while improving ESG performance. As we continue to make technological breakthroughs, we remain dedicated to ensuring the wellbeing and success of our people — by creating a fair, safe, and inclusive work environment, providing competitive remuneration and benefits, and supporting their holistic development. And by staying true to our core values of Sincerity and Passion, we channel efforts to promote social development in the fields of technology education and R&D, and to give back to our communities through philanthropic endeavors.

Sustainable Supply Chain

Commitment and Governance

Our pursuit of optimal efficiency can only be realized through the collective efforts of our global supply chain. At Xiaomi, we recognize the importance of building strong and responsible partnerships with our suppliers across the globe, regardless of where they operate, to achieve shared success. And to do this, we are resolute in providing the needed support, through our business and technological partnerships, to help them deliver both business outcomes and corporate sustainability targets. We identify and manage the social and environmental impacts of our supply chain, and respect local communities and ecosystems where Xiaomi products are made. We work to establish a shared understanding and vision with our suppliers in the areas of environmental protection, labor rights, employee health and wellbeing, production quality, ethical business practices, and socio-environmental impacts associated with raw material extraction and processing.

Xiaomi strives to build a good and stable partnership with suppliers that are founded on trust and commitment to excellence. By the end of 2022, Xiaomi had a total of 1,025 hardware manufacturers, working together to ensure the production of over 2,000 smartphones and AIoT products for Xiaomi. We always seek opportunities to optimize our supply chain strategies and practices, and work with our suppliers to enhance their governance and risk management capabilities through better support, closer supervision, and more transparent conversation to achieve our shared sustainable supply chain commitments. Our efforts ensure that the products and services we deliver are creating positive impacts that align with our ESG strategy.

Enhancing ESG Risk Management

Management System

Xiaomi Group's Purchasing Committee is responsible for managing the Group's purchasing and supply chain practices, and regularly reports to the Corporate Governance Committee. To ensure our suppliers share our commitment to ethical and sustainable business practices, we have established a wealth of supply chain policies, including the Xiaomi Supplier Social Responsibility Code of Conduct[28], Supplier Social Responsibility Agreement, and Xiaomi Supplier Social Responsibility Audit Procedures. These policies outline our standards and expectations for environmental protection, wellbeing, labor rights, and ethical management system requirements. In 2022, all of our direct suppliers have signed the Xiaomi Supplier Social Responsibility Code of Conduct or equivalent documents regarding social responsibility. Additionally, we require our procurement teams to strictly comply with our Procurement Code of Conduct, which is supervised by the Group Ethics Committee.

28 Please visit our Sustainability page to read Xiaomi Supplier Social Responsibility Code of Conduct: (https://www.mi.com/global/about/sustainability)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Digital Supply Chain Management System

In 2022, we upgraded our supply chain digital management system, which integrates demand planning, procurement, inventory management, production on-site management, partner management, business management, and research and development life cycle management. It includes supplier evaluation, risk response mechanisms, compliance, and work environment management. The system enables cross-sea full-chain data visualization (covering all production elements) and timely warning (emergency response time of less than 1 minute). This successfully leads the integration of supply chain data and improves manufacturing efficiency, effectively reducing Xiaomi's supply chain risks and maximizing resource value efficiency. As of the end of this reporting period, we have used this system to manage the production-oriented suppliers of smartphones, covering 100% of the primary suppliers and some secondary suppliers. In the future, the system will be applied to the supply chain management of wearable devices, smart TVs, laptops, major appliances, and smart hardware.

Digital solutions boosting more efficient management of labor rights and other social responsibility risks

Xiaomi's goal of fully digitizing the supply chain lifecycle management will be gradually realized through the implementation of a digital management system for the supply chain. Using big data risk control, Xiaomi gains better insight into the operational status of the supply chain, which enables systematic control of various risks in the supply chain. For instance, in labor management, the system is equipped with an efficient warning mechanism. Once a warning is issued, the relevant responsible parties are required to complete the necessary actions within a specified time frame. The results are then approved and confirmed by both the supplier and Xiaomi. If the warning is not addressed within the allotted time, the warning level will be elevated to higher-level management until the warning is reasonably closed. This feature provides a more efficient solution for preventing issues like child labor use, overtime work, and occupational health and safety risks. In 2022, the system triggered including 684 general risk alerts, and 59 important alerts. All the warnings were properly resolved.

Risk Management Process

We evaluated the ESG impacts at each stage of the supplier engagement process based on the analysis of the product and service lifecycle, upgraded the supply chain risk management system, and actively improved towards supply chain value management to create a more resilient, stable, trustworthy, and sustainable supply chain. Our risk management process can be summarized in the following steps:

1. We optimize Xiaomi's supply chain management approach, through business and partnership models, to foster suppliers' understanding of ESG and their actions to incorporate ESG values into business strategies and vision.

2. We identify and evaluate risk factors in the supply chain (such as conflict minerals, labor management, environmental impact, physical impacts of climate change, emergency response, political, legal, credit, and business continuity risks) on an annual basis, and establish procedures to prevent each risk.

3. Assess suppliers' compliance with the Xiaomi Group Supplier Code of Conduct and other relevant policies and standards. Based on their ESG risk assessment and performance evaluation results, we rank suppliers and manage them differentially and dynamically, helping them improve until they meet our targets and requirements, or they may face contract suspension or termination. Identify issues through digital means and audits, evaluate the root causes and impacts of the problems, and ultimately promote suppliers' ability to strengthen self-management and continuous improvement. This will effectively reduce the risks in the Xiaomi supply chain.

4. To enhance supply chain risk governance, we introduce more comprehensive ESG indicators and ambitious performance targets to strengthen our suppliers' management capability. We also provide capacity building programs and technical support to better equip our suppliers to operate in a more socially and environmentally responsible manner.

Target Management

Precision, agility, ecosystem, and efficiency are the guiding principles of Xiaomi's supply chain strategy, driving us to deliver on our ESG targets across all stages of our supply chain. Recognizing the urgent need for global orchestration and joint efforts to tackle climate change, this year Xiaomi has prioritized setting targets and action plans for our climate actions. Meanwhile, we are closely monitoring the implementation of our supply chain targets and programs to ensure alignment with Xiaomi's ESG strategy.

Take our smartphone supply chain's climate-related target management process as an example — just this year, we have seen a 9.4% increase in the proportion of suppliers who have set carbon reduction targets, versus the 2021 level, and a 7.9% increase in the proportion of suppliers who have undergone or are in the process of undergoing third-party carbon verification.

Onboarding of New Suppliers

Throughout our supplier selection process, Xiaomi has placed sustainability on par with key business criteria such as cost, quality, and service, so that our decision-making is more comprehensive, balanced, and aligned with our values. During the supplier nomination phase, we take the following three dimensions of standards into consideration:

1. Business Indicators: including capacity, commitments, cost, efficiency, quality, technology, corporate governance etc.

2. Environmental Indicators: including environmental impacts associated with operation, raw materials extraction and processing, components and manufacturing etc.

3. Social Indicators: Including labor rights, health and safety, business ethics, conflict minerals etc.

ESG compliance has long become one of the top criteria at Xiaomi when we select and evaluate our new suppliers. If any red-line issues[29] are identified in the course of due diligence, the concerned supplier will not be admitted to our supplier pool until such issues are rectified. We also require all new suppliers to sign the Xiaomi Supplier Social Responsibility Code of Conduct or our Supplier Social Responsibility Agreement, prior to formal engagement and cooperation, for they should comprehend and conform to internationally recognized labor rights protection standards and practices, as well as workplace safety standards and codes of conduct.

This year, Xiaomi completed 830 supplier admission evaluations, of which 770 passed and 60 suppliers were eliminated either due to their inability to complete rectification on time, or non-compliance with our requirements. Among them:

- One non-compliance was related to business ethics, in which we rejected the concerned supplier's admission to Xiaomi's supplier pool in accordance with Xiaomi Supplier Social Responsibility Code of Conduct.

- One non-compliance was due to the lack of fire safety registration and environmental impact assessment report. The concerned supplier was required to re-plan their warehouse and production workshop and put in place all the legally-required registrations, before they can file for a re-assessment with Xiaomi.

29 Xiaomi's red-line issues include: use of child labor and failure to protect underage workers; use of forced labor, violent behaviors, discrimination in recruitment and employment, dishonesty in work record, failure to provide minimum wage, failure to safeguard workplace safety and control fire safety risk, illegal discharge of hazardous wastes, any form of bribery.

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Supplier Assessment and Performance

To verify and manage ESG risks across our supply chain, we employ an approach that combines Xiaomi-led audits, third-party independent audits, and supplier self-assessment. We have also developed customized audit programs for our different product lines to accommodate sector-specific ESG risks in our assessment. If non-compliances are identified during any of these audits, we will work with suppliers to implement corrective actions within the set timeframe. If a supplier is unable to complete the rectification on time, and with due consideration of other factors, they may risk suspension or even termination of business with Xiaomi.

The following table sums up our key progress made in 2022 on supplier assessment.

Indicator	Manufacturing Supplier			Non-manufacturing supplier	2022 Target completion status
	Tier-1 (Assembly supplier)	Tier-2 (Parts supplier)	Tier-3 (Mainly Tin, Tantalum, Tungsten, Gold, Cobalt , and Mica supplier)		
ESG audit coverage	100% completion of annual Xiaomi audits and third-party audits recognized by Xiaomi	100% completion of annual Xiaomi audits, third-party audits recognized by Xiaomi and supplier self-assessment	95% of smelters and refiners passed the Responsible Minerals Assurance Process (RMAP) certification	100% completion of supplier due diligence	Completion

Conflict Minerals

Xiaomi takes a firm stance to avoid the use of conflict minerals in our products. We strictly adhere to the principles stipulated in the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, and the RBA Responsible Minerals Initiative (RMI) on responsible sourcing of minerals, and pledge not to source conflict minerals that directly or indirectly finance local armed groups.

This year, we made additional progress to identify the risks of conflict minerals in our supply chain and updated the Xiaomi Corporation Conflict Minerals Policy[30] to specify the respective risk prevention procedures. These include:

Due Diligence Procedure

1. Establish and develop a Conflict Minerals policy, due diligence procedure and safeguard measures, and define the roles and responsibilities of internal personnel.

2. Assess and identify the risk hotspots in the supply chain, and develop risk response and control procedures.

3. Require suppliers to conduct due diligence on smelters and refiners, and disclose the information of smelters and refiners in accordance with the Xiaomi Conflict Minerals management template or the Responsible Minerals Initiative (RMI) Conflict Minerals Reporting Template (CMRT/EMRT) on an annual basis. Request smelters and refiners to undertake relevant certifications if necessary.

4. Analyze and verify the due diligence results reported by the suppliers to ensure that the minerals are not sourced from conflict-affected areas.

5. Disclose the list of smelters and refiners who have passed our due diligence and verification. Disclose our smelters and refiners list on an annual basis.

6. Engage with suppliers continuously to improve response rate and enhance data credibility of the smelters.

7. Establish communication channels for stakeholders on Conflicted Minerals management.

8. Provide trainings on Conflict Minerals Policy and the due diligence procedures to our employees and suppliers.

Code of Conduct

1. Endorse the initiatives, processes, standards, and achievements of the Responsible Business Alliance (RBA).

2. Support the work and achievements of the RBA Responsible Minerals Initiative (RMI).

3. Follow the RBA Conflict Minerals Reporting Template/Extended Minerals Reporting Template (CMRT/EMRT) and Responsible Minerals Assurance Process to develop Xiaomi's Conflict Minerals management procedure and template.

4. Oblige to support Xiaomi in direct or indirect communication with smelters and refiners who are involved in Conflict Minerals.

5. Refer to the RBA Code of Conduct to conduct Conflict Minerals due diligence, or engage RBA-endorsed third-party audit agencies to conduct independent audits. Report the audit result and corrective actions to ensure conformance.

30 Please visit our Sustainability page to read the Xiaomi Group Conflict Minerals Policy: (https://www.mi.com/global/about/sustainability)

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6. Require upstream suppliers to manage minerals responsibly with reference to the RBA Code of Conduct.

7. Establish policies to ensure that there is no direct or indirect contribution to financing crimes and human rights violations.

Conflict Minerals Certification

Building on our efforts on managing conflict minerals, we embarked on a more extensive supply chain traceability program to trace the sources of tin, tantalum, tungsten, gold (3TG), cobalt and mica in our products to ensure that none of these come from conflict-affected zones. This year, we have mapped out a total of 436 upstream smelters and refiners across 58 countries and regions, 95% of which have obtained the RMI's Responsible Minerals Assurance Process (RMAP) certifications. For those who were yet to be certified by RMAP, Xiaomi requires suppliers to carry out third-party due diligence in accordance with RMAP requirements, or to replace them with certified smelters and refiners. Moving forward, we will establish a robust disclosure mechanism for our smelters/refiners, and work to strengthen our supply chain capabilities in governance, compliance, and transparency to ensure responsible management of conflict minerals.

The proportion and number of Xiaomi smelters/refiners with RMAP certifications in 2022

Minerals	Proportion of RMAP-certified smelters and refiners	Number of smelters/refiners
Tin	100%	80
Tantalum	100%	38
Tungsten	100%	53
Gold	100%	173
Cobalt	76%	90
Mica	100%	2

Supplier Empowerment

Supply Chain Finance

Xiaomi's Supply Chain Finance serves the manufacturing economy. We aim to use our digital and technology solutions as a driving force to lead the digital transformation of Small and Medium-sized Enterprises (SMEs), aided by our strong position in the manufacturing economy. Changes will abide by two principles: first, to aid growth with technology; second, that changes must be incremental to ensure stability. Digitalization of the supply chain process, in cooperation with financial institutions, allows our timely response to needs within the supply chain. As of the end of this reporting period, Xiaomi's supply chain finance has helped more than 14,000 companies to source over RMB250 billion in funds accumulatively.

Supplier Training

Xiaomi remains committed to enhancing the ESG governance and management competency of our suppliers. We provide on-site trainings to suppliers in English, Chinese and local languages, exchange with industry peers, subject consultations, best practice sharing, and benchmarking to help suppliers improve their ESG performance. This year, we covered a broad array of training topics that included labor rights, occupational health, production safety, product quality, environmental protection, business ethics, and climate change. These sessions have reached 100% of our manufacturing suppliers.

Supplier Carbon Verification

At Xiaomi, we recognize that every step counts as we aspire to achieve carbon neutrality across our value chain. This year, we launched a carbon verification program to identify opportunities for reducing carbon emissions in our value chain, starting from upstream supplier emissions. As a result of this program, we established the Xiaomi Supplier Carbon Emission Verification Standard, which is based on ISO 14064 and the Greenhouse Gas Protocol (GHG Protocol).

Taking our smartphone supply chain as an example — a total of 118 suppliers have set carbon reduction targets, including nine new suppliers who have joined the Science-based Targets initiative (SBTi). 64 suppliers have already undergone or are in the process of going through third-party verification of their greenhouse gas emissions data, and 50 suppliers have begun using renewable energy sources such as solar, wind, and hydropower in their operation.

People Development

At Xiaomi, talents are the bedrock of every technological breakthrough we drive and keep Xiaomi ahead of the fierce market competition. We aim to be the preferred choice of employer to attract and retain talents around the world, and this has galvanized us to create a motivating work environment for our employees which are green, safe, open, and inclusive, with competitive remuneration and benefits, and equal opportunities for all to grow and prosper in their career and personal life. This year, Xiaomi received a number of awards that recognize our employment practice, including being named one of the World's Best Employers 2022 and China's Best Employers in 2022 by Forbes, as well as receiving the award for China's Most Sustainable Employer 2022, among others.

Labor Rights and Diversity

Recruitment and Employment

Our values of fairness, impartiality, and openness define our approach to managing recruitment, employment, and employee dismissal across our global operation. We uphold and adhere to the guiding principles established by the International Labor Union (ILO), the Organization for Economic Cooperation and Development (OECD), and local workplace regulations to develop our internal policies, including our Employee Handbook, which sets standards for Xiaomi's workplace practices. We strictly forbid child labor and forced labor anywhere in our operations, and prohibit harassment, abuse, violence, and any form of discrimination in our workplace — including language, behaviors, and decision-making in the recruitment process. We also provide relevant training to help employees better understand these issues. In 2022, there have been no reported incidents related to child and forced labor, employment and gender discrimination, and violent behaviors in our workplace. Anyone found to be in violation of these conducts will be subject to disciplinary action in accordance with our internal policies and regulatory requirements.

Top-notch talents are valuable assets to any company, and even more so in our industry, that's why we have set up a dedicated Talent Strategy Team to join hands with our Human Resources Business Partners (HRBP) across business divisions to attract these talents to fill the core technical and strategic roles of our company. We also place great appreciation on local talents, as we value their skill sets, wisdom, and resources that they can bring to Xiaomi. By actively recruiting and developing local talents, we promote local employment. As of the end of this reporting period, Xiaomi had 2,477 employees in our overseas workforce, among which 2,229 are recruited locally.

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Employee Compensation and Incentives

Xiaomi is committed to offering competitive remuneration and benefits to our employees. We hold on to the principles of Total Compensation and Performance-Oriented to develop our comprehensive compensation system and incentive mechanism, which is clearly outlined in Xiaomi's Employee Handbook, making it easy for employees to understand how their remuneration is structured.

Performance Evaluation

We have formulated a robust performance management mechanism to guarantee the integrity and plausibility of our performance evaluation process. Every quarter or six months, employees are engaged to participate in self-evaluation as well as feedback from peers and line managers. Meanwhile, employees can make appeals and seek further justification with regard to their evaluation results and their pay packages, while the whole appeal process and the personal information of the applicants are strictly protected by our confidentiality policies and system.

Employee Share Award Scheme

We value long-term talent motivation and actively promote our employee Share Award Scheme. In 2022, the Board awarded a total of 366.3 million shares to 9,457 selected participants[31].

Employee Engagement and Care

Employee Engagement and Communication

At Xiaomi, we aim to create an equal and supportive work environment that values employees' voices and feedback on our operations. We have established diverse channels, including online platforms, dedicated hotlines, and email contacts for employees to speak up and raise their opinions, and convened employee meetings to communicate our progress in response to the many suggestions we heard from our teams. During this year's Labor Union Congress Meeting, we passed the Disciplinary Action Policy of Xiaomi Corporation through a combination of online and offline voting, ensuring we hold ourselves to a high ethical standard in our workplace practices.

Meanwhile, our Labor Union continued to encourage the use of our digital platform as an effective communication channel, in which employees can provide registered or anonymous feedback, and the platform is able to track progress and disclose our actions more transparently to employees. In 2022, all issues received on this platform have been addressed.

Employee Survey

We conduct semi-annual employee surveys to keep track of employee satisfaction and their levels of engagement, devotion, loyalty, and recognition, and the survey insights will help us formulate improvement actions to better support our people where they need it. For our most recent employee survey, in which we achieved a record 100% participation rate and with over 87% valid responses, showed that our overall employee satisfaction rate has increased by approximately 2.5% as compared to the beginning of 2022. Furthermore, the proportion of employees who plan to stay with the Company for over three years has increased by approximately 3.5%.

Parental Benefits

We provide all employees with parental leave, covering both primary and non-primary caregivers. This year, a total of 2,426 employees exercised parental leave, and the return-to-work rate after parental leave reached 100%.

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31 Please refer to the Group's Announcement Grant of Awards Pursuant to the Share Award Scheme released on March 24, May 20, August 21, and November 24, 2022, for the details of these awards of share.

Diversity and Equal Opportunities

Xiaomi remains committed to building a more equitable and diverse workplace where employees receive fair treatment at all times. We firmly believe that diversity and inclusion are powerful drivers of innovation, and it has guided us in creating a diverse, inclusive, and culturally rich workplace that embraces different voices and perspectives.

Respect and Equal Opportunities

We provide and safeguard inclusive and equal opportunities for all employees in recruitment, training, career development, and promotion without regard to their national origin, race, age, gender, religion, and cultural background. We have also set up a Women's Rights Committee that is dedicated to supporting and protecting the rights and wellbeing of our female employees both at work and at home. Every year, we organize commendation activities for our female employees to foster an equitable mindset for all, and prevent any unconscious biases that may undermine our culture of equality and inclusivity.

Promoting diversity and equality in Xiaomi's India operation

Xiaomi India has developed a Diversity-Equality-Inclusion policy that outlines the vision and approach to building a more inclusive and diverse workplace. This year, the proportion of female employees in Xiaomi India's workforce increased by 4%.

Meanwhile, Xiaomi India has put in place the Prevention of Sexual Harassment policy, which is gender-neutral in nature, to provide a safe workplace for employees of all gender that is free from any form of harassment. An Internal Complaints Committee was also set up to ensure the effective implementation of this policy.

Engineer Culture

At Xiaomi, we are relentless to forge an Engineer Culture that focuses on innovation and optimal efficiency. We embrace differences, encourage free-minded creativity and expression, and harness the power of our diverse people to drive innovation at scale. Through events such as the Million Dollar Technology Award, Xiaomi Technology Carnival, Xiaomi Hackathon, and Data Mining Competition, we provide a platform for great ideas to clash and sprout — and in one of those events, a total of 16 patent applications were submitted for the competition. In addition, we have introduced interactive content such as the Tech Circle and I Work on Technology in Xiaomi series to enhance our engineer culture and inclusive mindset among our workforce.

2022 Xiaomi Technology Carnival

The 2022 Xiaomi Technology Carnival, centered around the theme of Future Exploration, achieved a resounding success with more than 44,000 participants attending the event. Participants shared the excitement of showcasing, exchanging, debating, and testing new ideas and concepts alongside like-minded fellows. The Carnival also featured cutting-edge technologies, such as cloud-based gaming and web 3.0, to exhibit Xiaomi's core technological achievements, pioneering innovations, and thought leadership in hardware and software development, as well as the application of AI and IoT in unexplored fields.

Talent Growth and Development

Employee Promotion

At Xiaomi, we take strong steps to provide equal and open promotion opportunities for all employees. We have established a rigorous performance evaluation process that ensures every employee is treated fairly and equally when it comes to regular promotions. We also offer unique incentives and promotion paths for employees who make exceptional contributions to the company.

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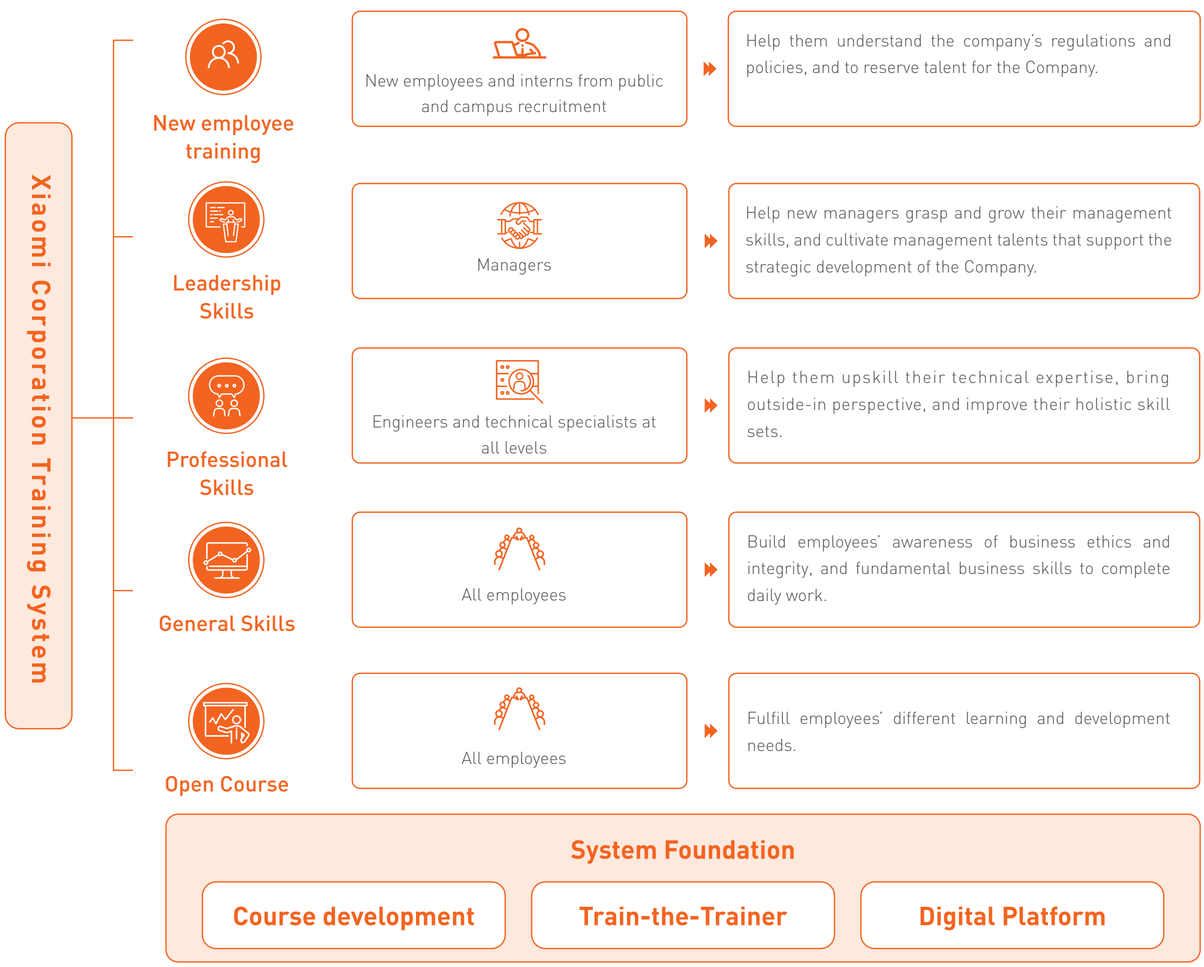
Training and Development

Employee development is essential for the long-term success of Xiaomi, and we are driven to provide comprehensive for our global workforce. To achieve this, we have set up the Xiaomi Group Learning Development Department with the mission to nurture Xiaomi talents comprehensively, and improve institutional capability efficiently. Our goal is to provide comprehensive, systematic, and efficient training for our employees at all cohorts, covering a wide range of topics including general education, corporate culture, cutting-edge technology, and management skills, among others, equipping our employees with the knowledge, expertise, and leadership skills they need to tackle everyday challenges at work and excel in their roles, and to drive the delivery of Xiaomi's strategic goals.

Training System

In order to provide training programs that best support the development needs of our employees, we have enhanced our talent development system to be more all-rounded this year. We rolled out open courses for all employees and new employee training courses specifically for new hires, on the one hand, and designed a full spectrum of curriculum covering general skills, leadership skills, and professional skills, on the other hand, to accommodate the training needs for employees across different cohort levels and job natures to further their professionalism and expertise. At the same time, we focus on improving the quality of our training by investing in course research and development, upskilling our training instructors, and taking vantage of digital platforms to improve our training efficiency. In 2022, we certified 308 Group-level instructors and developed over 100 new courses.



Xiaomi Corporation Training System

We place a strong emphasis on helping new employees integrate into our company and ramp up their professional skills rapidly through training. This year, we remain committed to delivering training for all new employees and interns, completing approximately 600,000 hours of new employee training and adding 141 new courses to our offerings. To help new employees better understand our company culture and policies, and nurture a strong sense of team belonging, we offered both online and offline training courses that cover all aspects of our organization. In 2022, we delivered a total of 10,000 hours of online and offline training courses.

As a technology company, outstanding technical talents are our most valuable assets. This is why we attach great importance to cultivating leadership abilities among them. We continuously develop management and technical succession planning courses for our mid- to high-level managers and technical specialists, and organize internal and external knowledge-sharing events to broaden their technical perspectives. This year, we offered a total of 20 courses, covering approximately 280 employees, with a total training time of 87 hours.

We also actively collaborated with top universities and research institutes this year to invite industry experts to provide courses on AI, robotics, new materials, 5G telecommunication technology, and other related fields. With regard to building a prosperous talent pipeline for the company, we launched the Bingling Plan to provide mid- to high-level technical managers with training on strategy planning, technical leadership, and business analytical skills. A total of 63 employees were enrolled in this program in 2022.

To uplift fundamental business skills for all our formal employees, including interns and part-time workers, we offered certified professional skill training such as the Project Management Professional (PMP) international certification, and relevant national professional and technical title assessment. This year, a total of 458 Xiaomi employees acquired professional affiliations from the Chinese Academy of Sciences.

The same training courses are provided to newly onboarded contractors as we do for regular employees, covering company culture, policies, and the use of office tools. We have formed online learning groups to provide instant assistance to our contractors and outsourced partners whenever necessary.

Employee Wellbeing

A Safe Working Environment

Xiaomi always harbors the belief that people are our most valuable assets, and that Environment, Health and Safety (EHS) is core and foundational to how we grow and thrive as a business. We abide by EHS regulations in every region we operate, and are dedicated to cultivating a strong EHS management culture to ensure a safe and healthy workplace for all. We establish and implement our EHS management system in accordance with ISO 14001:2015 and ISO 45001:2018.

Health and Safety Governance

We have established a dedicated EHS governance structure which is led by our newly-formed Safety Committee to spearhead EHS management at the Group-level. Comprised of Xiaomi's top management, this committee is responsible for overseeing the implementation and continuous improvement of EHS policies and management measures across the Group. To ensure effective EHS management in day-to-day operation, senior managers from each business unit take the lead in managing EHS and conducting workplace risk assessments, implementing control measures to eliminate any identified risks, and is responsible for conducting EHS training and campaigns for their team members to build awareness and drive behavior change.

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Health and Safety Risk Assessment and Control

We adopt a risk-based approach to manage any issues related to health and safety. Our EHS personnel identifies potential EHS risks and assesses the risk level by likelihood and severity with reference to the LEC[32] method, and the results will guide the design and implementation of risk control measures. Through regular inspection, monitoring, and assessment, we make sure the EHS risks are effectively controlled to ensure a safe and healthy working environment for our employees.

Annual risk identification and inspection at Xiaomi laboratories
Each year, we will select representative laboratories to conduct in-depth inspections to identify Class I and Class II hazardous sources[33] and develop control measures. This year, our laboratory inspections focused on electrical and fire safety, and we have taken immediate rectifications to mitigate the identified risks and closed the issue.

To improve our internal EHS management quality and capability, we organized EHS training programs for our internal specialists. This year, a total of 22 internal EHS auditors successfully obtained the professional qualification certified by third-party organizations.

Health and Safety Measures

To enhance the physical and mental wellness of our employees, we continued to invest in personal protective equipment, enhance safety management of hazardous areas, and deploy more professional personnel in health and safety management:

- We set up clinics and deploy medical personnel to provide medical consultations, physiotherapy, and handle safety emergencies when necessary;
- We placed professional Automatic External Defibrillators (AEDs) in the common areas of our facilities, such as the office lobby, employee service center, and main conference rooms. We also organized AED emergency response training for our employees;
- We erected warning signs in areas with potential health and safety hazards (e.g. laboratories), and set access restrictions in these areas.

We continued to engage third-party to conduct on-site audits on our canteens to ensure the food safety and hygiene standards of our canteen environment. Additionally, we formulated the Xiaomi Canteen Employee Code of Conduct to guide and regulate the safety behavior of canteen staff.

We provide non-prescriptive medicines and medical supplies to our employees in times of need. This year, we have distributed more than 24,000 pieces of medical supplies, including medicines, medical kits, and reagents to our employees. In addition, we organized over 20 health campaigns to enhance awareness of pandemic prevention, and set up a 24-hour hotline to address health-related concerns and questions from our employees.

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32 LEC: Likelihood, Exposure and Consequence

33 The classification of hazardous sources is based on the group standard Guidelines for hazard identification, risk assessment and the planning of control measures released by the China Occupational Health and Safety Association in 2021.

Raising Health and Safety Awareness

This year, our efforts to strengthen employees' awareness of preventing health and safety hazards involved conducting fire drills and emergency response for our laboratory operation. These included:

- Providing fire safety training that covered fire extinguishing, fire safety emergency response techniques, and fire drills;

- Delivering three laboratory safety trainings, covering topics such as safety operation procedures, emergency response, and the handling of dangerous and hazardous materials. A total of 145 participants from all relevant laboratory departments attended the trainings.

Our Employee Assistance Program (EAP) continued to provide support to enhance employee wellness. We hosted a number of offline psychological counseling activities this year, which attracted 625 employees to attend. We also rolled out a 12-session online training course on mental wellness, which was live-streamed to allow direct interaction between the instructor and the audience.

Physical and Mental wellbeing

In addition to our stringent health and safety measures, we aim to nurture a caring environment for the physical and mental wellbeing of our employees, and promote a work-life balance through our flexible work policy[34]. We offer a host of health-related benefits to all our employees including health checks, additional insurance coverage, wellness events, holiday gifts, and more. All our regular employees, part-time employees, and interns are entitled to these benefits. We also renovated the library and fitness center on our campus this year to improve employees' user experience.

Xiaomi understands that our employees have different health needs, and provides customizable health check packages to better support the needs of our female employees. We also extend our health check benefits to the spouse and family members of our employees, providing discounted health examinations based on their age and gender. All employees are entitled to paid sick leave of one day per month.

We offer additional insurance coverage for our employees and families to cater to their needs. These include:

- Providing supplementary medical insurance and accident insurance coverage for regular employees in mainland China;

- Providing accident insurance coverage for other groups of employees (interns, outsourced employees, part-time employees);

- Providing supplementary medical insurance for the children of regular employees in mainland China.

34 Flexible Work Policy: Employees are allowed to work on flexible hours as long as they fulfill the required working hours or that their assigned tasks are completed.

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Extending Our Social Responsibility

Adhering to the mission of empowering public welfare development with technology and promoting technological innovation with public welfare, Xiaomi firmly believes in the power of technology to make the world a better place. As a starting point, we proactively engage users, communities, governments, and research institutes to understand the needs of various stakeholders across our social hierarchies, and work to use technology as a force good to support education, volunteer service, aiding the distressed and alleviating poverty, emergency disaster relief as our way to give back to society.

Supporting Education

The advancement of our society fundamentally hinges on education and technological transformation. At Xiaomi, we take pride in being a tech-based innovator and remain committed to using our knowledge and resources to support the growth of talents beyond our own ecosystem, and help them build up skills in the space of STEM, smart manufacturing, AI, and others. This year, we continued to channel our efforts, through Xiaomi Foundation, into the Xiaomi Scholarship and the new Xiaomi Young Scholar programs to support the growth and development of young talents in the tech space.

- Through the Xiaomi Scholarship program, we have provided financial assistance totaling RMB15 million to 2,120 students who have achieved outstanding academic results or come from a financially disadvantaged background. As of the end of 2022, the program has been successfully rolled out in 20 universities across China;

- We initiated the Xiaomi Young Scholar program to sponsor young teachers and researchers in universities, with the purpose to encourage young talents to devote themselves to research and education on tech-related subjects. Our plan is to donate RMB500 million and cover 100 universities, and the program has already reached 30 universities as of the end of this reporting period.

We launched the Xiaomi Education program to incentivize and empower global young talents to create value for our world through technology. Through this program, we collaborated with charity organizations in the Philippines, Vietnam, Thailand, and Malaysia this year and donated Xiaomi LCD tablets to over 1,000 students and underprivileged children in these regions.

Disaster Warning

This year, we continued introducing upgrades to our smartphone earthquake monitoring system. For the first time, we partnered with China and Indonesia Natural Disaster Management organizations and enabled our smartphone earthquake warning function in oversea markets. Meanwhile, the National Intellectual Property Administration of PRC officially admitted and publicized our patent application for the earthquake monitoring warning system, which we co-developed with Chengdu High-tech Disaster Relief Institute. As of the end of this reporting period, over 180,000 users have voluntarily participated to monitor earthquake with their devices through Xiaomi's platform. In 2022, we pushed approximately 40 million warnings to our users worldwide for earthquakes with a magnitude of four or above.

Emergency Disaster Relief

This year, we support disaster relief through Xiaomi Foundation in our country as well as overseas, for instance, sending emergency materials and survival necessities during the earthquake in Sichuan and the forest fire in Chongqing. In India, our teams there gathered and donated 4 tons of food and hygiene supplies to over 1,000 families who were the victims of flooding in Assam.

Contributing to Rural Revitalization

Talent revitalization is the first step toward rural revitalization, and Xiaomi is always committed to using technology as a force to support the growth of technical talents. In 2022, Xiaomi Foundation expended RMB5.94 million to support rural revitalization.

Since 2018, Xiaomi has been collaborating with local colleges and universities to cultivate management and technical talent through scholarship and course development revitalization. As of the end of this reporting period, this program has benefited nearly 600 students.

Protecting Environment and Ecosystem

This year, we launched a charity program on Xiaomi Fundraising Platform for Charities with a focus on ecological conservation, covering topics on wildlife protection, stray animal rescue, and environmental protection. We hope to mobilize collective actions to preserve biodiversity, water resources, forests, and natural ecosystems. One of the projects, Protecting Habitat of Migratory Birds, aims to foster the protection of local migratory birds and their habitats through education, scientific research, and policy advocacy. Another highlight is the Three Rivers Water Conservation and Species Preservation project — through which we wish to preserve the most pristine and authentic nature of the Three River Sources (or Sanjiangyuan) ecosystems, and to demonstrate the harmony of people co-existing with nature.

Volunteer Programs

At Xiaomi, we foster a volunteering culture and encourage our employees to partake in volunteer services, donations, and sharing the time and skills to help others, as part of our social responsibility efforts. This year:

- We organized 21 volunteer service projects, including the Beijing Winter Olympics City Volunteer Project, the Barrier-Free Volunteer Project, and technology education service in primary and secondary schools. Altogether, we performed approximately 5,652 hours of volunteer service in total;

- One of the winning teams in Xiaomi Hackathon — the "Let's travel if we win team", which was formed by outstanding five engineers, decided to donate all their prizes to the Sunshine Ward school project, which supported the school's daily operations and covered the expenses of nearly 500 regular courses;

- We continued our efforts to support employment for people with disabilities, by donating our products to social organizations that provide employment services to people with varying abilities and helping them create job opportunities. As of the end of this reporting period, we have donated a total of 9,742 items including electronic products, garments, backpacks, household appliances, and other goods, with a total value of approximately RMB1.42 million.

Last but not the least, we appreciate every opportunity to do volunteer works with Mi fans. In 2022, we organized the 2022 Xiaomi Philanthropic Partnership campaign through Xiaomi Foundation. Together with 16 charity organizations and partners, we hosted nine offline charity activities in nine cities across China, attracting over 300 Mi fans volunteers to participate in volunteer work with us, and contributed to more than 600 hours of volunteer service.

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Task Force For Climate-related Financial Disclosures

Governance

The Board provides comprehensive oversight for the management of climate-related issues with the support of the Corporate Governance Committee. The Sustainability Committee is the highest governing committee responsible for managing climate-related issues at Xiaomi, and an ESG Working Group is established under the SC to coordinate and synergize internal and external resources to guide the landing of strategy into actions across business departments. Please refer to the ESG Management Approach and Governance Structure section for more details.

Strategy

With reference to the TCFD recommendations, in 2022, Xiaomi reviewed industry practices and climate publications and engaged with internal stakeholders to assess climate-related risks and opportunities for our three main operating segments (smartphones, IoT and lifestyle products, internet services) and our existing facilities in mainland China.

Following the TCFD recommendations, we conducted an analysis of the climate-related risks and opportunities for the short-term (within two years), medium-term (before 2030), and long-term (before 2040) under two climate scenarios. These scenarios are:

(1) Above 4°C scenario: Based on RCP 8.5 and IEA STEPs, which represent a Business-as-usual scenario with the current policy settings, the temperature rise by 2100 will reach above 4°C compared to the pre-industrial level.

(2) Below 2°C scenario: Based on RCP 2.6 and IEA NZE 2050, which represents a net-zero transformation scenario by 2050, the temperature rise by 2100 can be limited to within 2°C compared to the pre-industrial level.

Results of the scenario analysis are described in Table 1 and Table 2.

Our analysis showed that Xiaomi will be impacted by both the physical and transition climate risks if no action is taken. In particular, our main challenge by 2040 will be the climate-related transition risks, which are significantly dependent on the level of government actions. Meanwhile, the impact of physical risks will become more severe after 2040 as the planet continues to warm.

Table 1. Climate-related transition and physical risk analysis

Transition Risk	Above 4°C scenario	Below 2°C scenario
Policy and legal risk *Policy actions that attempt to constrain actions that contribute to the adverse effects of climate change or policy actions that seek to promote adaptation to climate change.*	**Low impact** • Lagging policy on the control and phase-out of refrigerants • Less stringent product energy efficiency standard • Lack of mandatory energy efficiency requirements for the manufacturing industry • Low coverage of the carbon trading market. The carbon price is relatively low • Limited coverage of the Extended Producer Responsibility system	**High impact** • Our facilities such as the production plant and data center are included in the carbon trading market. The carbon price is relatively higher. • Stringent and mandatory energy efficiency requirements in place for the manufacturing industry • Stringent product energy efficiency standards for a broader product categories • A more stringent control and phase-out policy for the refrigerant. Companies are bounded by tight production and consumption quota. • Clear taxonomy on environmental labels issued by the government • Broad coverage of the Extended Producer Responsibility system
Technology risk *Technological improvements or innovations that support the transition to a lower-carbon, energy efficient economic system*	**Low impact** • Minimal application of low-carbon technology in product • Investment and the use of recycled materials are on small scale	**High impact** • Wide application of low-carbon technology in product • Maximized use of electrification in production facilities • Significant reduction in PUE at data center • Early phase-out of energy inefficient equipment

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Transition Risk	Above 4°C scenario	Below 2°C scenario
Market Risk *Consumer preference for sustainable products that leads to shift in supply and demand*	**Low impact** • Green consumption is confined to a minority group of consumers. The market shows limited demand for environmentally-friendly products, or is unable to accept a green premium • Limited growth in the market demand for smart manufacturing systems and solutions • Fossil-based energy remains the main source of energy, and has a lower unit than that of the renewable energy	**High impact** • Green consumption becomes mainstream, and the market shows a strong demand for environmentally-friendly products. Green premium is commonly accepted. • Smart manufacturing systems and solutions are regarded as pre-requisites in main markets • Renewable energy becomes the main source of energy, and has a lower unit price than that of fossil-based energy
Reputation Risk *Changing external perceptions of an organization's contribution to the transition to a lower-carbon economy.*	**Low impact** • Limited consumer advocacies which lead to a loss or miss of growth opportunities	**Medium impact** • Huge consumer preference for sustainability, leading to a loss or miss of growth opportunities

Physical risk	Above 4°C scenario	Below 2°C scenario
Acute risk *Extreme weather events*	**Low impact** • A moderate increase in the frequency and intensity of extreme weather events, such as prolonged hot days, extreme and continuous rainfall	**Low impact** • A minor increase in the frequency and intensity of extreme weather events
Chronic risk *Long term change of climate pattern*	**Low impact** • Global warming becomes the main driver for the air conditioner market • The increase in average temperate leads to a growing demand for building cooling solution	**Low impact** • Global warming is the secondary driver for the air conditioner market • The heating of buildings will shift towards using heat pumps and renewable energy technologies.

As a global technology innovator, Xiaomi has unique strengths to leverage our know-hows in technological innovation and operational efficiency to provide solutions. We have infused climate-conscious elements into the design-to-delivery process of our "Coolest Product", exploring every possible integration of low-carbon with Xiaomi's business strategy and brand features, and translating these principles into environmentally-friendly technologies and products that help accelerate the global transition to a net zero emission economy.

Table 2 Analysis of climate-related opportunities for the below 2°C scenario

	New opportunities under the below 2°C scenario	Our strength and approach to harness the opportunities
Inter-connectivity	• Increasing demand for systematic resource management in indoor scenarios • In the home and office scenarios, there will be a growing demand for an intelligent management system that can provide a healthy, productive, and efficient space in which resource saving is maximized (energy, space, water, materials) and the environment is protected with reduced pollution.	• Xiaomi has established an open and shared IoT and a full-scenario voice control ecosystem across a wide range of scenarios that are interconnected and shared. • As of December 31 2022, the number of connected AIoT devices of Xiaomi totaled 589 million globally, with 11.6 million users having five or more devices connected to the Xiaomi AIoT platform. • Xiaomi's AI Assistant saves redundant computing, perception, and hardware devices through functions such as cooperative wake-up, unique response, and centralized control.
Optimal efficiency	• The resource and energy efficiency of our product and services will create a more positive influence on consumer preference • The accessibility and applicability of recycled materials will significantly improve	• Xiaomi strives to pursue optimal efficiency in our products, including material use efficiency, environmental efficiency of materials, energy efficiency, and distribution efficiency of our products, enabling us to enhance the cost-effectiveness of our products while lowering product carbon footprints. This will improve consumers' perception of our product and its sustainable features

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	New opportunities under the below 2°C scenario	Our strength and approach to harness the opportunities
Green electricity	• Accessibility of subsidy-free green electricity in the market has been improving year by year • A strengthening trend in the electrification of energy consumption in the building and transportation scenarios.	• We have begun developing our green power procurement plan, with the aim to gradually increase the electrification level and green power ratio in the production facilities of our main operating segments, and achieve our near zero emission target before 2040
Clean technology	• Rapid growth in the heat pump and air conditioning home appliances segments • AIoT and smart houseware will largely replace traditional houseware market • Energy management and monitoring capabilities becoming mainstream for IoT devices	• In 2022, Xiaomi invested more than 50% of our total R&D expenses in clean technology research and development, with a focus on more intelligent, efficient, and green production technology, as well as the development of AIoT products and solutions. These include AI, IoT, smart manufacturing, new electrical appliances and battery management, recyclable secondary materials, and others
New market opportunities	• Increasing needs from the public to cope with natural disasters due to climate change • Along the net zero transition process, the decarbonization of office and residential buildings will require behaviour change from its dwellers. AIoT devices will have more application scenarios, hence the growth in demand	• We will expand our AIoT product portfolio and application scenario to support dwellers of office and residential buildings to participate in decarbonization actions • Xiaomi has developed the Natural Disaster Warning system on its MIUI operating system of smartphone, which receives warning information from the China National Warning Center, to provide holistic information technology support on disaster emergency response measures

Xiaomi is accelerating its transition to a low-carbon model in order to address climate-related challenges and harness opportunities. We are committed to achieving our 2040 near-net-zero emission target. Beginning with reducing carbon emissions for our own operation, we also provide low-carbon training to our suppliers, support them with carbon data and target management tools, and drive decarbonization projects to drive low-carbon transformation throughout our product and value chain. We work to build a green ecosystem together with our upstream and downstream partners. Table 3 below summarizes our key measures to address climate-related risks:

Table 3. Our response and measures to address climate-related risks

Transition risks	Our response and measures
Policy and legal risk *Leverage our leadership influence to drive industry development*	• Collaborate with third-party to establish recycling system • Collaborate with third-party to develop product carbon footprint assessment approach and methodology
Technology risk *Change our production and operation model*	• Refurbish existing buildings to improve energy efficiency, and integrate energy efficiency targets into the design of new buildings • Deploy highly efficient automated technologies in new production facilities
Market risk *Embrace sustainability to fulfill market demand*	• Set and integrate energy efficiency targets at the onset of the product design phase, and maximize product energy efficiency through software and hardware optimization. Continuously improve energy efficiency during the product use phase. • Use bio-based and recycled materials in our product and packaging, launch product take-back programs in our global markets, and offer product trade-in or disintegration service • Offer Xiaomi-renewed products in certain markets • Consider investment or R&D in heat-pumps equipment • Develop smart manufacturing solutions based on our own factory building experience
Reputation risk *Ensure the transparency and credibility of our environmental performance*	• Regularly disclose Xiaomi's sustainability-related news and progress through multiple communication channels, release annual ESG Report and Green Bond Report to inform and communicate our environmental actions to stakeholders • Conduct product lifecycle carbon footprint assessment for our key products every year

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Physical risks	Our response and measures
Acute risk	• Set up emergency response plans and procedures • Optimize logistics route planning and reduce transportation distance
Chronic risk	• Refurbish existing buildings to improve energy efficiency, and integrate energy efficiency targets into the design of new buildings • Focus on the R&D and promotion of high quality and high efficiency products to foster a green reputation for the Xiaomi brand

Risk Management

Xiaomi employs a risk management framework to manage climate-related risks in its operations. The framework aims to ensure that climate-related risks are properly managed at Xiaomi to reduce negative impacts and seize opportunities. We adhere to the principles of Prompt Action, Practicability, Steady Progress, and Continuous Improvement, and take a phased approach to develop and implement our GHG emission reduction action plans and deliver our reduction targets in our operations and value chain. We prioritize autonomous emission reduction measures, such as retrofitting existing buildings for energy efficiency, low-carbon building planning and design, operational efficiency improvement, and renewable energy use to minimize our operational carbon emissions. Additionally, we will achieve our final carbon reduction target by purchasing green power certificates and carbon credit and offset products that are recognized by policies and standards.

Xiaomi's risk management procedure is illustrated below:

Metrics and Targets

Xiaomi has set the target, with reference to the ISO Net Zero Guidelines (IWA 42:2022), to establish all pre-conditions necessary by 2040 in order to achieve net zero emissions. Details of our relevant metrics and targets can be found in the Carbon Footprint Measurement section of the Report.

Key ESG Performance Indicators[35]

The scope of the following key ESG performance indicators covers, but is not limited to, the same scope as the company's consolidated financial statements. Some of the data also includes relevant information on entities and facilities that are under actual operational control.

Key Environmental Indicators[36]

Based on Xiaomi's current operations, Xiaomi's key environmental indicators for 2022 are listed below:

	2022	2021	2020
Consumption			
Total Comprehensive Energy Consumption (MWh)[37]	**144,741.38**	144,626.56	118,397.58
Direct Energy Consumption (MWh)	**5,190.84**	8,691.42	5,586.69
Indirect Energy Consumption (MWh)	**139,550.54**	135,935.14	112,810.89
Total GHG Emissions (Scope 1 and Scope 2) (Metric Tons CO_2e)	**85,742.61**	82,820.16	66,481.29
Direct GHG Emissions (Scope 1) (Metric Tons CO_2e)	**7,122.60**	9,096.95	8,402.12
Indirect GHG Emissions of Imported Energy (Scope 2) (Metric Tons CO_2e)	**78,620.01**	73,723.21	58,079.17
GHG Emissions (Scope 3) (Metric Tons CO_2e)	**The data is expected to be disclosed in July 2023.**	12,368,223.29	—
Total Water Consumption (Metric Tons)[38]	**510,156.05**	463,663.00	303,132.92
Fresh Water Consumption (Metric Tons)	**391,953.85**	329,572.00	187,339.02
Reclaimed Water Consumption (Metric Tons)	**118,202.20**	134,091.00	115,793.90
Non-hazardous Waste (Metric Tons)	**7,052.28**	6,328.88	4,661.07
Hazardous Waste (Metric Tons)	**1.43**	2.50	0.37
Total Packaging Materials used for Finished Products (Metric Tons)[39]	**5,065.08**	—	—

35 The key ESG performance indicators listed here include, but not limited to, the same scope as the consolidated corporate statements, and data of the actual operations of the controlling business and facilities in some cases. Numbers and percentage figures in this section have been subject to rounding. Any discrepancy between the total and the sum of the amounts listed is due to rounding.

36 The data presented in this chapter has been assured by an independent third-party verification organization. The assurance certificate is available on the Sustainability page of Xiaomi's Website: https://www.mi.com/global/about/sustainability.

37 The total amount of energy consumption was calculated based on the consumption of purchased electricity, purchased heat, natural gas, and gasoline, using the conversion factors specified in the national standard General Rules for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2020) of the People's Republic of China. Direct energy consumption includes the consumption of natural gas and gasoline for the Company's operations, while indirect energy consumption includes those from purchased electricity and purchased heat for the Company's operations.

38 Water resources used by Xiaomi include running water and reclaimed water from the municipal water supply system, which is provided by third-party utility company. Xiaomi has not encountered any events of water shortage. This year, we expanded the scope of our water resource-related data to include those from our new self-operated campus and more leased office areas.

39 Starting from this year, we tracked and measured the packaging materials used for products manufactured in Xiaomi's self-operated factories, and the packaging materials used in warehouse operations.

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	2022	2021	2020
Intensity[40]			
Energy Consumption Per Unit of Revenue (MWh/RMB million)	**0.52**	0.44	0.48
Energy Consumption Per Capita (MWh/person)	**4.45**	4.33	5.36
GHG Emissions Intensity (Metric Tons/RMB Million)	**0.31**	0.25	0.27
GHG Emissions Per Capita (Metric Tons/Person)	**2.63**	2.48	3.01
Fresh Water Consumption Per Capita (Metric Tons/Person)	**12.04**	9.86	8.49
Non-hazardous Waste Per Capita (Metric Tons/Person)	**0.22**	0.19	0.21
Hazardous Waste Per Capita (Kg/Person)	**0.04**	0.07	0.02
Package Materials Consumption Per Unit of Revenue (Metric Tons/RMB Million)	**0.02**	—	—

40 This year, we consolidated the intensity-related metrics of our environmental key performance indicators and disclosed data from the past three years so as to provide a more comprehensive view of our environmental performance.

Environmental Target and Review

This year, we reviewed the progress of the environmental targets set for 2021 and formulated a more comprehensive set of environmental targets to cover our value chain:

Topic	2021 Targets	Target completion status for this year	2022 Targets
Energy	By 2026, reduce per capita energy consumption in our self-operated campus by 5% as compared to the 2020 level.	Completed. The average energy consumption per person in our self-owned office space decreased by 19.18% in 2022 compared to 2020.	By 2026, reduce energy consumption per 10,000 RMB of revenue for ISO 50001-certified facilities by at least 2.5% as compared to the 2021 baseline.
Greenhouse gas	By 2026, reduce per capita GHG emissions from our self-operated campus by 4.5% as compared to the 2020 level.	Completed. As of the end of 2022, we have achieved a 21.12% reduction in per capita GHG emissions.	Please refer to the Technology for Carbon Reduction chapter for our renewed targets.
Water	Per capita water consumption at our own campus will not exceed the 2020 level.	Completed	At our own campus, achieve at least 30% use of reclaimed water and a minimum of 50,000 m^3 in water saving every year.
Waste	All non-hazardous wastes at our own campus will be sorted and classified for disposal; while all hazardous wastes will be treated and disposed of by licensed vendors.	Completed	We maintain our existing targets while developing new recycling targets for e-wastes to manage the end-of-life disposal of our products. Please refer to the Circular Economy and E-waste section for more information.

The Board has completed the appraisal of our 2021 environmental targets approved our renewed environmental targets described above.

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Key Social Indicators

Employees[41]

	2022	2021	2020
Total Workforce	**35,977**	35,415	24,810
By Employment Type			
Full-time Employees	**32,543 (90.46%)**	33,427 (94.39%)	22,074 (88.97%)
Other Types of Employees	**3,434 (9.54%)**	1,988 (5.61%)	2,736 (11.03%)
Profile of Full-time Employees			
By Gender			
Male	**21,961 (67.48%)**	22,222 (66.48%)	14,539 (65.86%)
Female	**10,582 (32.52%)**	11,205 (33.52%)	7,535 (34.14%)
By Age Group			
Under 30	**12,823 (39.40%)**	14,605 (43.69%)	10,446 (47.32%)
30–50	**19,440 (59.74%)**	18,556 (55.51%)	11,510 (52.14%)
Above 50	**280 (0.86%)**	266 (0.80%)	118 (0.53%)
By Professional Category			
Technical	**15,961 (49.05%)**	14,592 (43.65%)	10,484 (47.49%)
Non-technical	**16,582 (50.95%)**	18,835 (56.35%)	11,590 (52.51%)
By Cohort Level[42]			
Senior	**322 (0.99%)**	306 (0.92%)	250 (1.13%)
Male Senior	**266 (0.82%)**	—	—
Female Senior	**56 (0.17%)**	—	—
Mid-Level	**13,223 (40.63%)**	12,183 (36.45%)	7,385 (33.46%)
Male Mid-Level	**9,773 (30.03%)**	—	—
Female Mid-Level	**3,450 (10.60%)**	—	—
Junior	**18,998 (58.38%)**	20,938 (62.64%)	14,439 (65.41%)
Male Junior	**11,923 (36.64%)**	—	—
Female Junior	**7,075 (21.74%)**	—	—
By Geographic Region			
China	**30,066 (92.39%)**	31,115 (93.08%)	20,586 (93.26%)
Other Asian Countries and Regions	**1,802 (5.54%)**	1,683 (5.03%)	1,203 (5.45%)
European Countries and Regions	**623 (1.91%)**	613 (1.83%)	278 (1.26%)
North American Countries and Regions	**52 (0.16%)**	16 (0.05%)	6 (0.03%)
Oceania Countries and Regions	**0 (0.00%)**	0 (0.00%)	1 (0.00%)

41 Total employee workforce includes full-time employees of Xiaomi Group, as well as part-time employees and interns who have a direct employment relationship with Xiaomi.

42 This year, Xiaomi continues to refine its employee data collection methodology for its employees, and has added a gender-based classification to the employee categorization based on job levels.

Employee Turnover [43]

	2022	2021	2020
Total Turnover Rate	**13.96%**	12.82%	12.36%
By Gender			
Male	**13.32%**	12.07%	11.97%
Female	**15.27%**	14.30%	13.11%
By Age Group			
Under 30	**17.09%**	15.11%	13.33%
30–50	**12.05%**	11.06%	11.21%
Above 50	**3.21%**	9.40%	39.83%
By Geographic Region [44]			
China	**12.98%**	12.81%	12.27%
Overseas	**25.80%**	12.92%	13.51%

Incidence of Work Injuries

Year	No. of Work-Related Fatality	Work-Related Fatality Rate [45]	Working Days Lost Due to Work-Related Injury (days) [46]
2022	**0**	**0.00%**	**816**
2021	0	0.00%	500
2020	1 [47]	0.0045%	469

43 Employee turnover rate = the number of employees who leave the company in the reporting year / the total number of employees at year-end × 100%.

44 This year, Xiaomi adjusted the scope of employee turnover rate by geographic region as China and oversea, and restated relevant data in 2021 and 2020.

45 Work-related fatality rate = total number of work-related fatalities / total number of employees at year end × 100%.

46 Work-related injury data refer to the work-related death and injury accidents certified by local Human Resources and Social Security Bureau.

47 Fatality due to traffic accident.

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Training and Development [48]

	2022	2021	2020
Training Rate			
Overall Training Rate	**97.67%**	97.42%	—
By Gender			
Male	**97.05%**	97.29%	—
Female	**98.96%**	97.68%	—
By Cohort Level			
Senior	**91.01%**	87.84%	—
Mid-Level	**95.91%**	96.82%	—
Junior	**99.01%**	97.91%	—
Average Number of Training Hours			
Overall Average Number of Training Hours	**35.57**	25.76	—
By Gender			
Male	**36.95**	25.94	—
Female	**32.72**	25.39	—
By Cohort Level			
Senior	**19.30**	15.31	—
Mid-Level	**25.91**	18.85	—
Junior	**42.57**	29.94	—

Specialized Training

Training Content	Total Training Course Duration (In Hours) Accumulated in 2022	Total Number of Trained Participant (Individuals) in 2022
Data Security and Privacy Protection Awareness	**963,732**	**42,207**
Security Technology	**29,799**	**19,866**
Anti-Corruption	**57,041**	**51,820**

48 The scope of training data covers all full-time employees of Xiaomi Group.

General Training Courses for New Employees

Name of project	Number of Participants/Courses/ Total Course Hours in 2022	Number of Participants/Courses/ Total Course Hours in 2021
Starry Program	3,839 Participants/438 Courses/Total Course Hours of 236,671 Hours.	3,571 Participants/305 Courses/Total Course Hours of 359,802 Hours.
Morning Star Program	106 Participants/8 Courses/Total Course Hours of 742 Hours.	85 Participants/4 Courses/Total Course Hours of 6,375 Hours.
Xiaomi Internship	2,000 Participant/9 Courses/Total Course Hours of 26,000 Hours.	339 Participants/8 Courses/Total Course Hours of 3,729 Hours.

Talent Development Program for Management

Name of project	2022 Course Participant Pool (Individuals)	2021 Course Participant Pool
Spark Program	1,250	1,070
Torch Program	750	389
Ignite Program	105	84
Flame Program	44	44

Number of Complaints for Products and Services

	Number of Complaints With Identified Responsibility in the Globe
2022	76,874
2021	88,336

Certification and Coverage Scope

	2022 (Scope)
ISO 37001	Xiaomi Group
ISO 27001	Xiaomi Group
ISO 14001	The research and development, manufacturing outsourcing management, and sales of Smartphones.
ISO 45001	The research and development, manufacturing outsourcing management, and sales of Smartphones.

Classification of The Supply Chain By Region

Region	Suppliers Related to Technology Hardware Manufacturing (Individuals)
China	989
Overseas	36

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I. ESG INDEX

Chapter	Section	ESG Disclosure Standards[49]	Disclosure Number/ Title	Description	Page no./Explanation
About this Report	—	HKEx ESG Guide	Reporting Principles	A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG report: Materiality: The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement. Quantitative: Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed. Consistency: The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.	P100
			Reporting Boundary	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.	
		GRI Standards	2-2	Entities included in the organization's sustainability reporting	P100
			2-3	Reporting period, frequency and contact point	P100

[49] The acronyms shown in this column are referred to the Environmental, Social, and Governance Guideline (HKEx ESG Guide) under Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standard); and the Hardware — Sustainability Accounting Standard of the Sustainability Accounting Standards Board (SASB).

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
Governance and compliance	Board Statement; ESG Management Approach and Governance Structure	HKEx ESG Guide	Governance Structure	A statement from the board containing the following elements: (i) a disclosure of the board's oversight of ESG issues; (ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.	P100
		GRI Standards	2-9	Governance structure and composition	P101–102
			2-12	Role of the highest governance body in overseeing the management of impacts	P101–102
			2-13	Delegation of responsibility for managing impacts	P101–102
			2-14	Role of the highest governance body in sustainability reporting	P101–102
			2-15	Conflicts of interest	P101
			2-16	Communication of critical concerns	P101
			2-17	Collective knowledge of the highest governance body	P101
			2-22	Statement on sustainable development strategy	P101
	Stakeholder Engagement	GRI Standards	2-26	Mechanisms for seeking advice and raising concerns	P103
			2-29	Approach to stakeholder engagement	P103
	Materiality Assessment	GRI Standards	3-1	Process to determine material topics	P104
			3-2	List of material topics	P105
			3-3	Management of material topics	P104–105

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Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
	Business Ethics	HKEx ESG Guide	B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	P105–107
			B6.3	Description of practices relating to observing and protecting intellectual property rights.	P107
			B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Xiaomi Group strictly abides by the <Criminal Law of the People's Republic of China>, the <Anti-Money Laundering Law of the People's Republic of China>, and other applicable laws, regulations, and obligations in the regions where it operates. Please refer to page P106 for related policies.
			B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	P106
			B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	P106
			B7.3	Description of anti-corruption training provided to directors and staff.	P106
		GRI Standards	2-25	Processes to remediate negative impacts	P106
			2-26	Mechanisms for seeking advice and raising concerns	
			205-103	**Anti-corruption — Management approach**	P106
			205-1	Operations assessed for risks related to corruption	Risk assessment covered 100% operation locations
			205-2	Communication and training about anti-corruption policies and procedures	P106
			205-3	Confirmed incidents of corruption and actions taken	P106

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
			206-103	**Anti-competitive Behavior — Management approach**	P107
			206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	P107
			417-103	**Marketing and Labeling — Management approach**	P107
			417-1	Requirements for product and service information and labeling	P107
Technology created to better lives	Our Climate Strategy	HKEx ESG Guide	A4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	P108–109; 2022 Task Force For Climate-related Financial Disclosures, P150–156
			A4.1	Description of measures to review employment practices to avoid child and forced labour.	P108; 2022 Task Force For Climate-related Financial Disclosures, P150–156
		GRI Standards	2-22	Statement on sustainable development strategy	P108–109; 2022 Task Force For Climate-related Financial Disclosures, P150–156
	Technology for Carbon Reduction	HKEx ESG Guide	A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Xiaomi strictly abides by the Environmental Protection Law of the People's Republic of China, Energy Conservation Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environment Pollution by Solid Wastes, Water Pollution Prevention and Control Law of the People's Republic of China and other laws, regulations and obligations in the regions where it operates. Please see P110–111; P114–116; 2022 Task Force For Climate-related Financial Disclosures, P150–156 for details.

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Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
			A1.5	Description of emissions target(s) set and steps taken to achieve them.	P110–116
			A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	P110–116
			A2	Policies on the efficient use of resources, including energy, water and other raw materials.	P115
			A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	P115
			A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	P115
			A3	Policies on minimising the issuer's significant impacts on the environment and natural resources.	P108–116
			A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	P108–116
			A4	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	P108–109
			A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	P108–116
		GRI Standards	**301-103**	**Materials — Management approach**	P113–114
			302-103	**Energy — Management approach**	P112–115
			302-4	Reduction of energy consumption	P114–115
			302-5	Reductions in energy requirements of products and services	P112–114
			303-103	**Water and Effluents — Management approach**	P115
			303-1	Interactions with water as a shared resource	P115; the Sustainability page of Xiaomi's Website
			303-2	Management of water discharge related impacts	P115; the Sustainability page of Xiaomi's Website
			303-3	Water withdrawal	P115

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
			305-103	**Emissions — Management approach**	P110–111
			305-1	Direct (Scope 1) GHG emissions	P111
			305-2	Energy indirect (Scope 2) GHG emissions	P111
			305-3	Other indirect (Scope 3) GHG emissions	P111
			305-5	Reduction of GHG emissions	P111
			306-103	**Waste — Management approach**	P115–116
			306-1	Waste generation and significant waste-related impacts	P115–116
			306-2	Management of significant waste related impacts	P115–116
			306-4	Waste diverted from disposal	P116
	Technology for Low-carbon Impact	GRI Standards	201-2	Financial implications and other risks and opportunities due to climate change	P117–118
Exploration and Accessibility of Technology	Technology Exploration	GRI Standards	201-2	Financial implications and other risks and opportunities due to climate change	P120; the Sustainability page of Xiaomi's Website
	Enhancing Accessibility of Technology	GRI Standards	**203-103**	**Indirect Economic Impacts — Management approach**	P121–123
			203-2	Significant indirect economic impacts	P121–123
Responsible Product and User Experience	Product and Service Quality	HKEx ESG Guide	B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	P124
			B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	P124
			B6.2	Number of products and service related complaints received and how they are dealt with.	P127
			B6.4	Description of quality assurance process and recall procedures.	P124

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Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
		GRI Standards	2-25	Processes to remediate negative impacts	P127
			2-26	Mechanisms for seeking advice and raising concerns	P127
			416-103	**Customer Health and Safety — Management approach**	P124–126
			416-1	Assessment of the health and safety impacts of product and service categories	P125
			416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	This year, Xiaomi was not involved in any non-compliance incident concerning the health and safety issues caused by our products and services.
			417-103	**Marketing and Labeling — Management approach**	P126–128
	Data Security and Privacy Protection	HKEx ESG Guide	B6	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	P128
			B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	P128–131
		SASB	TC-HW-230a.1	Description of approach to identifying and addressing data security risks in products	P129–131
		GRI Standards	2-23	Policy commitments	P128
			2-24	Embedding policy commitments	P128–131
			418-103	**Customer Privacy — Management approach**	P128–131
	Circular Economy and Electronic-waste	HKEx ESG Guide	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	P132–134
		SASB	TC-HW-410a.4	Weight of end-of-life products and e-waste recovered, percentage recycled	P132

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
		GRI Standards	2-23	Policy commitments	P132
			2-24	Embedding policy commitments	P132–134
			301-103	**Materials — Management approach**	P132–134
			301-2	Recycled input materials used	P132
			301-3	Reclaimed products and their packaging materials	P132–133
			306-103	**Waste — Management approach**	P132–133
			306-1	Waste generation and significant waste-related impacts	P132–133
			306-2	Management of significant wasterelated impacts	P132–133
			416-103	**Customer Health and Safety — Management approach**	P134
			416-1	Assessment of the health and safety impacts of product and service categories	P134
Creating Shared Success	Sustainable Supply Chain	HKEx ESG Guide	B5	Policies on managing environmental and social risks of the supply chain.	P134–140
			B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	P137–140
			B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	P136–140
			B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	P137; P141
		SASB	TC-HW-440a.1	Description of the management of risks associated with the use of critical materials	P136–140
		GRI Standards	2-23	Policy commitments	P138–140
			2-24	Embedding policy commitments	P138–140
			204-103	**Procurement Practices — Management approach**	P137–140
			301-103	**Materials — Management approach**	P137–140
			305-103	**Emissions — Management approach**	P141
			308-103	**Supplier Environmental Assessment — Management approach**	P137; P138; P141
			308-1	New suppliers that were screened using environmental criteria	P137
			308-2	Negative environmental impacts in the supply chain and actions taken	P141

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Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
			407-1	Freedom of Association and Collective Bargaining	P136–138; the Sustainability page of Xiaomi's Website
			408-103	**Child Labor — Management approach**	P136–138
			408-1	Operations and suppliers at significant risk for incidents of child labor	P136–138; the Sustainability page of Xiaomi's Website
			409-103	**Forced or Compulsory Labor — Management approach**	P136–138
			409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	P136–138; the Sustainability page of Xiaomi's Website
	People Development	HKEx ESG Guide	B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	We strictly abide by the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, Employment Ordinance (Hong Kong), Estatuto de los Trabajadores (Workers' Statute in Spain), and other domestic and foreign laws and regulations related to employees' basic rights and obligations. Please see P141–143 for details.
			B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	We strictly abide by the Work Safety Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, Regulation on Work-Related Injury Insurance, and other applicable laws and regulations of the regions where it operates. Please see P145–147 for details.

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
			B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	P145–147
			B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	P143–144
			B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	We strictly abide by the Labor Law of the People's Republic of China, Employment Ordinance (Hong Kong), Estatuto de los Trabajadores (Workers' Statute in Spain), and other domestic and foreign laws and regulations related to preventing forced and child labour. Please see P141 for details.
			B4.1	Description of measures to review employment practices to avoid child and forced labour.	P141
			B4.2	Description of steps taken to eliminate such practices when discovered.	P141
		GRI Standards	2-26	Mechanisms for seeking advice and raising concerns	P142
			201-3	Defined benefit plan obligations and other retirement plans	P147: Consolidating footnotes of Financial Statement, employee welfare and employee welfare expense p250.
			401-103	**Employment — Management approach**	P141
			401-2	Benefits provided to full-time employees that are not provided to temporary or part time employees	P147

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Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
			401-3	Parental leave	P142
			402-103	**Labor/Management Relations — Management approach**	P141–142
			403-1	Occupational health and safety management system	P145
			403-2	Hazard identification, risk assessment, and incident investigation	P146
			403-3	Occupational health services	P146
			403-4	Worker participation, consultation, and communication on occupational health and safety	P146
			403-5	Worker training on occupational health and safety	P147
			403-6	Promotion of worker health	P145–147
			403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	P145–147
			403-10	Work-related ill health	P146
			404-103	**Training and Education — Management approach**	P143–144
			404-2	Programs for upgrading employee skills and transition assistance programs	P144
			404-3	Percentage of employees receiving regular performance and career development reviews	P142
			405-103	**Diversity and Equal Opportunity — Management approach**	P143
			406-103	**Non-discrimination — Management approach**	P141
			406-1	Incidents of discrimination and corrective actions taken	P141
			407-103	**Freedom of Association and Collective Bargaining — Management approach**	Xiaomi has its own Union. The Collective Bargaining Agreement remained effective during the reporting period.
			408-103	**Child Labor — Management approach**	P141
			409-103	**Forced or Compulsory Labor — Management approach**	P141

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
	Extending Our Social Responsibility	HKEx ESG Guide	B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	P148–149
			B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	P148–149
			B8.2	Resources contributed (e.g. money or time) to the focus area.	P148–149
		GRI Standards	**203-103**	**Indirect Economic Impacts — Management approach**	P148–149
			203-1	Infrastructure investments and services supported	P148–149
			203-2	Significant indirect economic impacts	P148–149
			413-1	Operations with local community engagement, impact assessments, and development programs	P148–149
			413-103	**Local Communities — Management approach**	P148–149
Key ESG Performance Indicators	Key Environmental Indicators	HKEx ESG Guide	A1.1	The types of emissions and respective emissions data.	P157
			A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P157–158
			A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P157–158
			A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P157–158
			A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	P157–158
			A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	P157–158
			A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	P157
			A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	P157–158

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
		GRI Standards	302-1	Energy consumption within the organization	P157
			302-3	Energy intensity	P158
			303-3	Water withdrawal	P157
			305-4	GHG emissions intensity	P158
			306-3	Significant spills	P157
	Environmental Target and Review	HKEx ESG Guide	A1.5	Description of emissions target(s) set and steps taken to achieve them.	P159
			A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	P159
			A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	P159
			A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	P159
	Social Indicators	HKEx ESG Guide	B1.1	Total workforce by gender, employment type (for example, full- or part time), age group and geographical region	P160
			B1.2	Employee turnover rate by gender, age group and geographical region.	P161
			B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	P161
			B2.2	Lost days due to work injury.	P161
			B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	P162
			B3.2	The average training hours completed per employee by gender and employee category.	P162
			B5.1	Number of suppliers by geographical region.	P163
		SASB	TC-HW-330a.1	Percentage of gender and racial/ethnic group representation for (1) management, (2) technical staff, and (3) all other employees	P160
		GRI Standards	2-4	Restatements of information	P161
			2-7	Employees	P160

Chapter	Section	ESG Disclosure Standards	Disclosure Number/ Title	Description	Page no./Explanation
			401-1	New employee hires and employee turnover	P161
			403-8	Workers covered by an occupational health and safety management system	P163
			403-9	Work-related injuries	P161
			403-10	Work-related ill health	P161
			404-1	Average hours of training per year per employee	P162
			405-1	Diversity of governance bodies and employees	P160
Other Indicators	—	GRI Standards	2-1	Organizational details	Corporate Information, P4–5
			2-5	External assurance	the Sustainability page of Xiaomi's Website
			2-6	Activities, value chain and other business relationships	Chairman's Statement, P8–15
			2-10	Nomination and selection of the highest governance body	Director's Report, P30–77
			2-11	Chair of the highest governance body	
			2-19	Remuneration policies	Corporate Governance Report, P88–90
			2-20	Process to determine remuneration	
			2-27	Compliance with laws and regulations	We understand the applicable laws, regulations, industry norms and obligations that relevant information has been described in the Index and corresponding sections
			2-28	Membership associations	UNGC
			201-1	Direct economic value generated and distributed	Five-Year Financial Summary, P6–7; Management Discussion And Analysis, P16–29;
			201-4	Financial assistance received from government	Notes to The Consolidated Financial Statements: Summary of significant accounting policies, P221; Other income, P249
			304-103	**Biodiversity — Management approach**	the Sustainability page of Xiaomi's Website
			304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	
			304-2	Significant impacts of activities, products, and services on biodiversity	
			304-3	Habitats protected or restored	
			304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Xiaomi Corporation
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Xiaomi Corporation (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 186 to 325, comprise:

- the consolidated balance sheet as of December 31, 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss"
- Impairment assessment of goodwill
- Impairment assessments of investments accounted for using the equity method

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss" Refer to Note 3.3 and Note 20 to the consolidated financial statements. The Group measures the following investments at fair value through profits or losses: (i) equity investments in unlisted companies other than those accounted for using equity method, and (ii) convertible redeemable preferred shares or ordinary shares with preferential rights investments in unlisted companies (collectively the "**Unlisted Securities**"). The total amount of Unlisted Securities as of December 31, 2022 was RMB39,495,957,000, accounting for 14% of the Group's total assets.	We understood and evaluated the key controls over the capturing, measurement and recording of the Unlisted Securities investments and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors of related accounting estimate. For the classification and initial recognition of the Unlisted Securities, we have performed the following procedures: (1) We checked relevant legal documents such as shareholder agreements, share purchase agreements and articles of association of the investees on a sample basis to understand the commercial rationale for these Unlisted Securities investments; (2) We evaluated management's analysis on contract terms and assessed the reasonableness of management's accounting treatments on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and initial recognition of the Unlisted Securities require management to analyze certain complex contract terms and make judgments to determine the classifications of the above financial assets, based on the Group's business models of managing these financial assets and the contractual terms of the cash flows. The Group identified its various rights and evaluated the financial impacts based on key terms from relevant legal documents. Management engaged an external valuer to assist to determine the fair value of these Unlisted Securities. The fair value determination of such Unlisted Securities required management to make judgments and estimates, including the appropriateness of using various unobservable inputs. We focused on this area due to the significance of the balances of these investments and their related fair value gain or loss for the year, as well as management judgments, assumptions and estimations involved in the initial recognition and fair value determination of the Unlisted Securities which are subject to high degree of estimation uncertainty and high level of inherent risk factors.	For the assessment of fair value determination of the Unlisted Securities, we involved our internal valuation expert to perform the following procedures: (1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group; (2) We assessed the appropriateness of the valuation model, interviewed management and understood the underlying assumptions and inputs used in fair value determination of Unlisted Securities; (3) We assessed the reasonableness of assumptions, estimates and inputs used in fair value determination of Unlisted Securities, including expected volatility, risk-free interest rate, discounted for lack of marketability; (4) We recalculated the fair values of Unlisted Securities on a sample basis; and (5) We tested the accuracy of the fair value changes on investments measured at fair value through profit or loss for the year on a sample basis. We found the judgments, assumptions and estimations made by management in relation to the initial recognition and fair value determination of the Unlisted Securities to be supportable based on the available evidences.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Note 4(e) "Critical accounting estimates and judgments" and Note 16 to the consolidated financial statements. On July 5, 2021, the Group completed the acquisition of Zimi International Incorporation ("**Zimi**") which mainly engages in the design, manufacture and sales of mobile charges and related products, and recognized goodwill amounting to RMB1,382,143,000, which was allocated to Zimi as it was monitored by management at Zimi level and goodwill impairment assessment was performed accordingly as of December 31, 2021. Under an internal group reorganization as completed in 2022, the Group has integrated Zimi with a business unit of the Group which has similar business with Zimi to maximize the synergy from the acquisition of Zimi. Accordingly, the goodwill arising from the acquisition of Zimi was reallocated to the aforesaid business unit as identified at the lowest level which management monitors the related goodwill for internal purposes. To assess the impairment, management determined the recoverable amount of aforesaid business unit, an individual cash generating unit ("**CGU**"), based on its value in use ("**VIU**") calculations using the discounted cash flow model with assistance from an independent professional valuer. Based on the result of the assessment, management has concluded that no impairment provision was required for the year ended December 31, 2022.	In response to this key audit matter, we have performed the following procedures: (1) We obtained an understanding of the management's assessment process and key controls of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; (2) We evaluated management's identification of CGUs and allocation of goodwill based on the Group's accounting policy and our understanding of the Group's business; (3) We evaluated the objectivity, independence and competence of the external valuer engaged by the Group; (4) We assessed the appropriateness of the valuation model with the assistance of our internal valuation expert; (5) We assessed the reasonableness of the key assumptions and estimates as adopted by management in the discounted cash flow model for the impairment assessment (primarily with respect to the revenue growth rate, sales margin, terminal growth rate and discount rate) by reference to external industry data, the Group's historical and subsequent sales and margin information, etc.;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area due to the significance of the carrying amount of goodwill and given that significant judgments and estimates were involved in determining the key assumptions and estimates (in particular the revenue growth rate, sales margin, terminal growth rate and discount rate) for the impairment assessment.	(6) We tested the mathematical accuracy of the calculations of the discounted cash flow model and the recoverable amount of the CGU; (7) We evaluated the sensitivity analysis prepared by management around the key assumptions and estimates to assess the potential impact of a range of possible outcomes; and (8) We assessed the adequacy of related disclosures in the consolidated financial statements. Based on the procedures performed, we considered the key judgements and estimates adopted by management in the impairment assessment of goodwill are supported by the evidence obtained.
Impairment assessments of investments accounted for using the equity method Refer to Note 4(e) "Critical accounting estimates and judgments" and Note 12(b) to the consolidated financial statements. In accordance with IAS 36 "Impairment of Assets", where an indicator of impairment of the assets exists, the Group will estimate the recoverable amounts of the relevant assets, based on the higher of its fair value less costs of disposal and its value in use. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. As of December 31, 2022, the total amount of investments accounted for using the equity method was RMB7,932,192,000, accounting for 3% of the Group's total assets.	In response to this key audit matter, we have performed the following procedures: (1) We obtained an understanding of the management's assessment process and key controls of impairment of investments accounted for using the equity method and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; (2) We evaluated the objectivity, independence and competence of the external valuer engaged by the Group; (3) We assessed the appropriateness of the valuation model with the assistance of our internal valuation expert;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area due to the significance of the carrying amount of investments accounted for using the equity method and given that significant judgments and estimates were involved in the discounted cash flows calculation under value in use method (in particular the revenue growth rate, sales margin, terminal growth rate and discount rate) for the impairment assessment.	(4) We assessed the reasonableness of the key assumptions and estimates as adopted by management in the discounted cash flow model under value in use method for the impairment assessment (primarily with respect to the revenue growth rate, sales margin, terminal growth rate and discount rate) by reference to external industry data, historical and subsequent sales and margin information, etc.; (5) We tested the mathematical accuracy of the calculations of the recoverable amounts; (6) We evaluated the sensitivity analysis prepared by management around the key assumptions and estimates to assess the potential impact of a range of possible outcomes; and (7) We assessed the adequacy of related disclosures in the consolidated financial statements. Based on the procedures performed, we considered the key judgements and estimates adopted by management in the impairment assessment of investments accounted for using the equity method are supported by the evidence obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Sun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 24, 2023

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2022

(Expressed in Renminbi ("RMB"))

	Note	Year ended December 31, 2022 RMB'000	2021 RMB'000
Revenue	6	280,044,016	328,309,145
Cost of sales	9	(232,466,826)	(270,048,204)
Gross profit		47,577,190	58,260,941
Research and development expenses	9	(16,028,132)	(13,167,088)
Selling and marketing expenses	9	(21,323,323)	(20,980,765)
Administrative expenses	9	(5,113,877)	(4,738,919)
Fair value changes on investments measured at fair value through profit or loss	20(vi)	(1,662,010)	8,132,133
Share of net (losses)/profits of investments accounted for using the equity method	12(b)	(400,100)	275,013
Other income	7	1,135,560	826,856
Other losses, net	8	(1,368,810)	(2,579,507)
Operating profit		2,816,498	26,028,664
Finance income	11	1,663,941	1,229,826
Finance costs	11	(546,483)	(2,841,457)
Profit before income tax		3,933,956	24,417,033
Income tax expenses	13	(1,431,388)	(5,133,798)
Profit for the year		2,502,568	19,283,235
Attributable to:			
— Owners of the Company		2,474,030	19,339,321
— Non-controlling interests		28,538	(56,086)
		2,502,568	19,283,235
Earnings per share (expressed in RMB per share):	14		
Basic		0.10	0.78
Diluted		0.10	0.76

The notes on pages 195 to 325 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2022

(Expressed in RMB)

	Note	Year ended December 31, 2022 RMB'000	2021 RMB'000
Profit for the year		**2,502,568**	19,283,235
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income/(loss) of investments accounted for using the equity method	12(b)	**57,211**	(60,568)
Transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of investments accounted for using equity method		**93,311**	—
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		**(22,754)**	(2,649)
Currency translation differences		**(103,529)**	(313,151)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**3,721,116**	(1,027,846)
Other comprehensive income/(loss) for the year, net of tax		**3,745,355**	(1,404,214)
Total comprehensive income for the year		**6,247,923**	17,879,021
Attributable to:			
— Owners of the Company		**6,201,669**	17,940,990
— Non-controlling interests		**46,254**	(61,969)
		6,247,923	17,879,021

The notes on pages 195 to 325 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2022

(Expressed in RMB)

	Note	As of December 31, 2022 RMB'000	2021 RMB'000
Assets			
Non-current assets			
Property and equipment	15	9,138,221	6,964,621
Intangible assets	16	4,629,676	5,579,159
Investments accounted for using the equity method	12(b)	7,932,192	10,230,751
Long-term investments measured at fair value through profit or loss	20	55,979,974	50,113,702
Deferred income tax assets	35	2,278,175	1,661,947
Long-term bank deposits	25(c)	16,788,346	16,195,419
Long-term investments measured at amortized cost	20	405,371	351,362
Other non-current assets	18	15,940,461	15,943,508
		113,092,416	107,040,469
Current assets			
Inventories	24	50,437,891	52,397,946
Trade receivables	22	11,795,074	17,985,503
Loan receivables	21	7,829,563	5,109,034
Prepayments and other receivables	23	18,578,491	19,851,884
Bills receivables measured at fair value through other comprehensive income		40,003	14,033
Short-term investments measured at fair value through other comprehensive income	20	449,109	710,865
Short-term investments measured at amortized cost	20	—	1,597,919
Short-term investments measured at fair value through profit or loss	20	9,845,910	29,311,848
Short-term bank deposits	25(c)	29,874,707	31,041,129
Restricted cash	25(b)	3,956,786	4,319,661
Cash and cash equivalents	25(a)	27,607,261	23,511,579
		160,414,795	185,851,401
Total assets		273,507,211	292,891,870
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	26	406	407
Reserves		143,658,052	137,212,499
		143,658,458	137,212,906
Non-controlling interests		264,602	219,590
Total equity		143,923,060	137,432,496

CONSOLIDATED BALANCE SHEET

As of December 31, 2022

(Expressed in RMB)

	Note	As of December 31, 2022 RMB'000	2021 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	34	21,493,261	20,719,790
Deferred income tax liabilities	35	983,256	1,202,717
Warranty provision		945,270	895,747
Other non-current liabilities	30	16,534,831	16,913,649
		39,956,618	39,731,903
Current liabilities			
Trade payables	31	53,093,543	74,643,005
Other payables and accruals	32	18,440,716	20,224,499
Advance from customers	33	9,587,959	9,289,177
Borrowings	34	2,150,741	5,527,050
Income tax liabilities		1,384,133	2,335,124
Warranty provision		4,970,441	3,708,616
		89,627,533	115,727,471
Total liabilities		129,584,151	155,459,374
Total equity and liabilities		273,507,211	292,891,870

The notes on pages 195 to 325 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 186 to 325 were approved by the Board of Directors on March 24, 2023 and were signed on its behalf:

Lei Jun **Lin Bin**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2022		407	(343,730)	59,717,626	8,536,648	69,301,955	137,212,906	219,590	137,432,496
Comprehensive income									
Profit for the year		–	–	–	–	2,474,030	2,474,030	28,538	2,502,568
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive income of investments accounted for using the equity method	12(b)	–	–	–	57,211	–	57,211	–	57,211
Transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of investments accounted for using equity method		–	–	–	93,311	–	93,311	–	93,311
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(22,754)	–	(22,754)	–	(22,754)
Currency translation differences	27	–	–	–	(121,245)	–	(121,245)	17,716	(103,529)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	27	–	–	–	3,721,116	–	3,721,116	–	3,721,116
Total comprehensive income		–	–	–	3,727,639	2,474,030	6,201,669	46,254	6,247,923

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Transactions with owners in their capacity as owners									
Purchase of own shares	26	—	(2,386,143)	—	—	—	(2,386,143)	—	(2,386,143)
Cancellation of shares	26	(4)	2,539,078	(2,539,074)	—	—	—	—	—
Release of ordinary shares from Share Scheme Trusts	26	—	—	1,315,868	(1,307,612)	—	8,256	—	8,256
Share of other reserves of investments accounted for using the equity method	12(b)	—	—	—	122,326	—	122,326	—	122,326
Employees share-based compensation scheme:									
— value of employee services	29	—	—	—	2,821,775	—	2,821,775	125	2,821,900
— exercise of share options and restricted stock units	29	3	—	890,469	(793,005)	—	97,467	—	97,467
Share consideration for acquisition of Zimi International Incorporation ("**Zimi**") completed in 2021		—	—	98,399	(98,399)	—	—	—	—
Transfer of share of other reserves to profit or loss upon disposal and deemed disposal of investments accounted for using equity method		—	—	—	(419,795)	—	(419,795)	—	(419,795)
Appropriation to statutory reserves	27	—	—	—	384,506	(384,506)	—	—	—
Appropriation to general reserves	27	—	—	—	(1,898)	1,898	—	—	—
Others		—	—	—	(21,177)	21,174	(3)	(1,367)	(1,370)
Total transactions with owners in their capacity as owners		(1)	152,935	(234,338)	686,721	(361,434)	243,883	(1,242)	242,641
Balance at December 31, 2022		406	(190,795)	59,483,288	12,951,008	71,414,551	143,658,458	264,602	143,923,060

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2021		409	(36,224)	64,655,891	8,158,661	50,912,959	123,691,696	321,819	124,013,515
Comprehensive income									
Profit for the year		–	–	–	–	19,339,321	19,339,321	(56,086)	19,283,235
Other comprehensive loss									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive loss of investments accounted for using the equity method	12(b)	–	–	–	(60,568)	–	(60,568)	–	(60,568)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(2,649)	–	(2,649)	–	(2,649)
Currency translation differences	27	–	–	–	(307,268)	–	(307,268)	(5,883)	(313,151)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	27	–	–	–	(1,027,846)	–	(1,027,846)	–	(1,027,846)
Total comprehensive income		–	–	–	(1,398,331)	19,339,321	17,940,990	(61,969)	17,879,021
Transactions with owners in their capacity as owners									
Purchase of own shares	26	–	(7,006,824)	–	–	–	(7,006,824)	–	(7,006,824)
Cancellation of shares	26	(5)	6,699,318	(6,699,313)	–	–	–	–	–
Release of ordinary shares from Share Scheme Trusts	26	–	–	698,434	(682,802)	–	15,632	–	15,632
Share of other reserves of investments accounted for using the equity method	12(b)	–	–	–	379,814	–	379,814	–	379,814
Employees share-based compensation scheme:									
– value of employee services	29	–	–	–	1,792,841	–	1,792,841	145	1,792,986
– exercise of share options and restricted stock units	29	3	–	649,543	(568,233)	–	81,313	–	81,313
Share consideration for acquisition of Zimi		–	–	413,071	(86,502)	–	326,569	–	326,569
Appropriation to statutory reserves	27	–	–	–	929,149	(929,149)	–	–	–
Appropriation to general reserves	27	–	–	–	21,176	(21,176)	–	–	–
Others		–	–	–	(9,125)	–	(9,125)	(40,405)	(49,530)
Total transactions with owners in their capacity as owners		(2)	(307,506)	(4,938,265)	1,776,318	(950,325)	(4,419,780)	(40,260)	(4,460,040)
Balance at December 31, 2021		407	(343,730)	59,717,626	8,536,648	69,301,955	137,212,906	219,590	137,432,496

The notes on pages 195 to 325 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

(Expressed in RMB)

	Note	Year ended December 31, 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	36(a)	(969,453)	12,227,783
Income tax paid		(3,420,277)	(2,442,495)
Net cash (used in)/generated from operating activities		(4,389,730)	9,785,288
Cash flows from investing activities			
Capital expenditures		(5,799,570)	(7,169,313)
Proceeds from disposal of property and equipment	36(b)	17,334	35,365
Placement of short-term bank deposits		(58,365,222)	(67,310,919)
Withdrawal of short-term bank deposits		68,591,095	53,409,119
Placement of long-term bank deposits		(9,874,904)	(8,808,779)
Proceeds from disposal of long-term bank deposits		1,921,513	431,993
Purchase of short-term investments measured at fair value through profit or loss		(72,822,699)	(169,186,373)
Proceeds from maturity of short-term investments measured at fair value through profit or loss		92,620,278	162,808,867
Purchase of short-term investments measured at fair value through other comprehensive income		(776,338)	(1,167,454)
Proceeds from maturity of short-term investments measured at fair value through other comprehensive income		1,073,150	1,232,523
Purchase of long-term investments measured at amortized cost		(40,920)	(127,754)
Purchase of short-term investments measured at amortized cost		(630,996)	(4,544,694)
Proceeds from maturity of investments measured at amortized cost		2,265,269	2,905,762
Interest income received		1,301,900	1,228,830
Investment income received		425,676	687,736
Purchase of long-term investments measured at fair value through profit or loss		(7,687,992)	(12,882,628)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		2,821,615	1,857,274
Purchase of investments accounted for using the equity method		(28,030)	(215,847)
Proceeds from disposal of investments accounted for using the equity method		361,159	2,665,212
Acquisition of subsidiaries, net of cash acquired		(25,106)	(1,086,477)
Dividends received		201,561	229,612
Net cash generated from/(used in) investing activities		15,548,773	(45,007,945)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

(Expressed in RMB)

	Note	Year ended December 31, 2022 RMB'000	2021 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		19,857,851	22,528,578
Repayment of borrowings		(22,649,189)	(13,301,236)
Finance expenses paid		(1,020,229)	(659,987)
Withdrawal of restricted cash		—	500,000
Contribution from fund investors		806,000	3,471,000
Distribution to fund investors		(255,576)	—
Net proceeds from exercise of share options		83,925	83,014
Payments for shares repurchase		(2,386,143)	(7,006,824)
Payments for employee fund buyback		(3,256)	—
Repayment of payables under letter of credit		(1,006,397)	—
Payment of lease liabilities		(1,281,785)	(1,115,859)
Net cash (used in)/generated from financing activities		(7,854,799)	4,498,686
Net increase/(decrease) in cash and cash equivalents		3,304,244	(30,723,971)
Cash and cash equivalents at the beginning of the year	25(a)	23,511,579	54,752,443
Effects of exchange rate changes on cash and cash equivalents		791,438	(516,893)
Cash and cash equivalents at the end of the year	25(a)	27,607,261	23,511,579

The notes on pages 195 to 325 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "**Company**"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "**Group**") are principally engaged in development and sales of smartphones, internet of things ("**IoT**") and lifestyle products, provision of internet services and investments holding in the People's Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of these consolidated financial statements.

The regulations in mainland China restrict foreign ownership of companies that provide internet services, e-commerce and value-added telecommunications services, etc., which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain controlled structured entities through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd. ("**Xiaomi Communications**", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from its respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information (continued)

- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 12(a).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standards Board ("**IASB**") and disclosure requirements of the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following new and amended standards, and annual improvements are mandatory for the first time for the Group's financial year beginning on January 1, 2022 and are applicable for the Group:

- Reference to the Conceptual Framework — Amendment to IFRS 3
- Property, Plant and Equipment: Proceeds before intended use — Amendment to IAS 16
- Onerous Contracts — Cost of Fulfilling a Contract — Amendment to IAS 37
- Narrow-scope amendments — Amendments to IFRS 3, IAS 16 and IAS 37
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to AG 5 Merger Accounting for Common Control Combinations

The adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group.

(b) New and amended standards not yet adopted

Certain new and amended accounting standards have been published that are not mandatory for the year ended December 31, 2022 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Subsidiaries controlled through Contractual Arrangements

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group, and their assets, liabilities and results are consolidated in the Group's consolidated financial statements.

(b) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) Business combination (continued)

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("**OCI**") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

2 Summary of significant accounting policies (continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28 "Investments in Associates and Joint Ventures". Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is treated as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other losses, net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.3 Associates (continued)

(b) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.10).

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollar ("**US$**"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange gains and losses are presented in the consolidated income statement within "other losses, net".

Translation differences on non-monetary financial assets and liabilities are recognized in profit or loss as part of the fair value changes.

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
— Electronic equipment	3–10 years
— Office equipment	2–5 years
— Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings and factories under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses, net" in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.7 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognized so as to write off the cost of investment properties to their residual values over their estimated useful lives of 38 to 40 years by using the straight-line method.

2.8 Intangible assets

(a) Goodwill

Goodwill arises from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (continued)

(c) Trademarks, patents and domain name

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 20 years.

(d) Other intangible assets

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded within operating expenses in the consolidated income statement.

(e) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

2 Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use ("**VIU**"). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 19 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other losses, net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other losses, net.

- Fair value through profit or loss ("**FVPL**"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated income statement within other losses, net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in the consolidated income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.3 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other financial assets, mainly including loan receivables, other receivables, term bank deposits, long-term investments measured at amortized cost and short-term investments measured at amortized cost or fair value through other comprehensive income, is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.10.4 Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.4 Derecognition (continued)

Asset-backed securities

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liability is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration received from the derecognized portion shall be recorded in profit or loss.

2.11 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9; and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

2 Summary of significant accounting policies (continued)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business and value-added tax and other tax recoverable. They are generally due for settlement within one year and therefore all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 2.10.3 for a description of the Group's impairment policies for trade and other receivables.

2.14 Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less credit loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss allowance is recognized in profit or loss. See Note 2.10.3 for a description of the Group's impairment policy for loan receivables.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

2 Summary of significant accounting policies (continued)

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.21 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and where the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.22 Employee benefits

(a) Pension obligations

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. The contributions borne by the Group under the government mandated multi-employer defined contribution scheme are principally determined based on certain percentages of the salaries of employees, subject to certain ceilings. Contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.23 Share-based payment

(a) Equity-settled share-based payment transactions

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("**RSUs**") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.23 Share-based payment (continued)

(a) Equity-settled share-based payment transactions (continued)

In terms of the RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

2 Summary of significant accounting policies (continued)

2.24 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(a) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to six years. The Group revaluates its estimates on an annual basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

2.25 Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. The Group recognizes revenue when the specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of products

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has been transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(a) Sales of products (continued)

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(b) Internet services

Internet services mainly comprise advertising services and internet value-added services.

(i) Advertising services

Advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the third parties' apps are downloaded by users.

(ii) Internet value-added services

The Group recognizes the internet value-added services revenue (including online game and fintech business) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. For online game, the Group also defers the related revenue, over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Fintech business

The Group's fintech revenues are primarily consist of financial interest income and intermediary services income.

The Group generates financial interest income from provision of loan services through its own online internet finance platform. Financial interest income is recognized over the terms of loan receivables using the effective interest method.

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(b) Internet services (continued)

(ii) Internet value-added services (continued)

Fintech business (continued)

The Group also provides intermediary services to the borrowers and third party funding parties (as the lenders). The Group are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans between lenders and borrowers. The Group acts as an agent to facilitate such loans. The Group considers the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total transaction price to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal if the Group obtains control through any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.26 Interest income

Interest income on financial assets at amortized cost and financial assets at fair value through other comprehensive income calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.27 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2 Summary of significant accounting policies (continued)

2.28 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

2.29 Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.30 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.30 Leases (continued)

- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 Summary of significant accounting policies (continued)

2.30 Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries operate in mainland China and overseas, and they are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners, and recognized assets and liabilities in the Group's overseas subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners in mainland China.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2022 would have been approximately RMB74,470,000 (2021: RMB152,246,000) higher/lower, as a result of net foreign exchange gains on translation of net monetary liabilities denominated in US$.

For the Company and the Group's subsidiaries whose functional currency is US$, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2022 would have been approximately RMB83,657,000 higher/lower (2021: RMB70,048,000 lower/higher), as a result of net foreign exchange gains (2021: net foreign exchange losses) on translation of net monetary assets (2021: net monetary liabilities) denominated in RMB.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 34), long-term investments measured at amortized cost, long-term bank deposits, short-term investments measured at fair value through other comprehensive income, short-term investments measured at amortized cost, loan receivables, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2022 would have been approximately RMB13,178,000 (2021: RMB26,255,000) lower/higher. This analysis does not include the effect of interest capitalized.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2022 would have been RMB138,036,000 (2021: RMB117,558,000) higher/lower.

The fair value interest rate risk arises from financial assets and liabilities carried at fixed rates is not significant for the Group.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk primarily in respect of the long-term investments and short-term investments held by the Group and classified in the balance sheet as at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its long-term investments measured at amortized cost, long-term bank deposits, loan receivables, trade receivables, other receivables, short-term investments measured at amortized cost, short-term investments measured at fair value through other comprehensive income, short-term investments measured at fair value through profit or loss, bills receivables measured at fair value through other comprehensive income, short-term bank deposits, restricted cash, cash and cash equivalents, and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments measured at fair value through profit or loss and bills receivables measured at fair value through other comprehensive income, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to those financial institutions.

For short-term investments measured at fair value through other comprehensive income, long-term investments measured at amortized cost and short-term investments measured at amortized cost, mainly including debt securities whose contractual cash flows are solely principal and interest, management makes periodic collective assessments as well as individual assessment on the recoverability based on historical settlement records and past experiences. In view of the sound rating of bond issuers, management believes that the credit risk inherent in those investments due from them is not significant.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding other receivable balances due from them is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is RMB435,846,000 as of December 31, 2022 (2021: RMB1,165,679,000), the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently. The Group has recognized loss allowance for such losses at each of the reporting date.

To manage risk arising from loan receivables, the Group performs standardized credit management procedures. For pre-approval investigation, the Group uses its platform and systems using big data technology to optimize the review process, including credit analysis, assessment of collectability of borrowers, possibility of misconduct and fraudulent activities. In terms of credit examining management, the Group has established specific policies and procedures to assess loans offering. For subsequent monitoring, the Group has implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, the Group has established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("**PD**"), Exposure at Default ("**EAD**") and Loss Given Default ("**LGD**"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("**ECL**") under IFRS 9.

(b1) Expected credit loss model for loan receivables, as summarized below:

- The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(3) Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(b2) Credit loss allowance

The credit loss allowance recognized in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the year, and the subsequent "step up" (or "step down") between 12-month and lifetime ECL;

- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the year;

- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2022	124,182	89,550	778,692	992,424
Transfers:				
Transfer from Stage 1 to Stage 2	(289)	7,721	—	7,432
Transfer from Stage 1 to Stage 3	(3,979)	—	104,132	100,153
Transfer from Stage 2 to Stage 3	—	(41,179)	48,556	7,377
Change in PDs/LGDs/EADs	8,649	(202)	30,957	39,404
Loan receivables derecognized during the year	(106,984)	(46,807)	(91,878)	(245,669)
New loan receivables originated	20,850	7,867	20,350	49,067
Write-offs	—	—	(154,071)	(154,071)
Loss allowance as of December 31, 2022	42,429	16,950	736,738	796,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors: (continued)

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2021	297,219	302,340	2,209,525	2,809,084
Transfers:				
Transfer from Stage 1 to Stage 2	(538)	11,238	—	10,700
Transfer from Stage 1 to Stage 3	(3,486)	—	82,415	78,929
Transfer from Stage 2 to Stage 3	—	(78,835)	89,569	10,734
Change in PDs/LGDs/EADs	(401)	1	12,092	11,692
Loan receivables derecognized during the year	(291,916)	(211,359)	(996,932)	(1,500,207)
New loan receivables originated	123,304	66,165	136,623	326,092
Write-offs	—	—	(754,600)	(754,600)
Loss allowance as of December 31, 2021	124,182	89,550	778,692	992,424

Significant changes in the gross carrying amount of loan receivables that contributed to changes in the loss allowance were as follows:

The new loan receivables originated during the year ended December 31, 2022 increased by 49% (2021: decreased by 50%), which resulted from the Group's efforts to develop the supply chain factoring loan business. With the decrease of the gross carrying amount in Stage 3, loss allowance measured on lifetime basis decreased by RMB41,954,000 for the year ended December 31, 2022 (2021: RMB1,430,833,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The gross carrying amount of the loan receivables explains their significance to the changes in the credit loss allowance as discussed above:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Gross carrying amount as of January 1, 2022	5,205,525	104,408	791,525	6,101,458
Transfers:				
Transfer from Stage 1 to Stage 2	(10,263)	10,263	—	—
Transfer from Stage 1 to Stage 3	(121,024)	—	121,024	—
Transfer from Stage 2 to Stage 3	—	(48,818)	48,818	—
Loan receivables derecognized during the year other than write-offs	(5,248,666)	(55,758)	(92,314)	(5,396,738)
New loan receivables originated	8,037,714	11,449	29,245	8,078,408
Write-offs	—	—	(157,448)	(157,448)
Gross carrying amount as of December 31, 2022	7,863,286	21,544	740,850	8,625,680
Gross carrying amount as of January 1, 2021	9,000,485	379,063	2,348,624	11,728,172
Transfers:				
Transfer from Stage 1 to Stage 2	(12,864)	12,864	—	—
Transfer from Stage 1 to Stage 3	(85,924)	—	85,924	—
Transfer from Stage 2 to Stage 3	—	(93,282)	93,282	—
Loan receivables derecognized during the year other than write-offs	(8,881,273)	(271,443)	(1,099,335)	(10,252,051)
New loan receivables originated	5,185,101	77,206	142,392	5,404,699
Write-offs	—	—	(779,362)	(779,362)
Gross carrying amount as of December 31, 2021	5,205,525	104,408	791,525	6,101,458

There is no originated credit-impaired loan receivables of the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b3) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write off loan receivables that are still subject to enforcement activity. The outstanding contractual amounts of loan receivables written off during the year ended December 31, 2022 was RMB157,448,000 (2021: RMB779,362,000). The Group still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

(b4) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements. There are loan covenants terms for certain borrowings. As of December 31, 2022, there is no non-compliance with such loan covenants (2021: Nil).

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities into relevant maturity grouping based on the remaining year at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 year and 2 years RMB'000	Between 2 years and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2022					
Borrowings	2,707,100	537,088	10,341,827	16,107,081	29,693,096
Trade payables	53,093,543	—	—	—	53,093,543
Other payables	12,901,886	—	—	—	12,901,886
Lease liabilities	1,072,383	508,876	608,323	414,582	2,604,164
Liabilities to fund investors	—	—	14,053,228	806,000	14,859,228
Off-balance sheet guarantee liabilities	322,786	—	—	—	322,786
At December 31, 2021					
Borrowings	6,118,187	1,550,750	5,192,677	19,309,820	32,171,434
Trade payables	74,643,005	—	—	—	74,643,005
Other payables	14,609,004	—	—	—	14,609,004
Lease liabilities	1,150,605	1,072,857	708,259	495,533	3,427,254
Liabilities to fund investors	—	—	—	14,892,666	14,892,666
Off-balance sheet guarantee liabilities	1,030,985	—	—	—	1,030,985

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital and share premium) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has strong cash positions, continuously generating operating profits with a low level of indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation

The table below analyzes the Group's main financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at December 31, 2022:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	4,547,386	—	51,432,588	55,979,974
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	9,845,910	9,845,910
Short-term investments measured at fair value through other comprehensive income (Note 20)	449,109	—	—	449,109
Bills receivables measured at fair value through other comprehensive income	—	—	40,003	40,003
	4,996,495	—	61,318,501	66,314,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at December 31, 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	4,296,065	—	45,817,637	50,113,702
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	29,311,848	29,311,848
Short-term investments measured at fair value through other comprehensive income (Note 20)	710,865	—	—	710,865
Bills receivables measured at fair value through other comprehensive income	—	—	14,033	14,033
	5,006,930	—	75,143,518	80,150,448

(a) **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. The amounts of net fair value losses for level 1 investments for the year ended December 31, 2022 is RMB773,674,000 (2021: net fair value losses RMB811,247,000).

(b) **Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example, over- the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;

- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and

- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets mainly include long-term investments measured at fair value through profit or loss and short-term investments measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2022 and 2021:

	Year ended December 31, 2022 RMB'000	2021 RMB'000
At the beginning of the year	45,817,637	28,838,232
Acquisition of subsidiaries	—	56,890
Additions	7,636,143	12,553,789
Disposals	(2,091,056)	(1,135,038)
Changes in fair value	(1,277,618)	8,248,140
Transfer to long-term investments accounted for using the equity method	—	(936,913)
Transfer to level 1 financial instruments	(547,574)	(975,148)
Transfer to short-term investments measured at fair value through profit or loss	—	(411,558)
Exchange gains/(losses)	1,895,056	(420,757)
At the end of the year	51,432,588	45,817,637
Net unrealized (losses)/gains for the year	(1,181,027)	8,115,939

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2022 and 2021:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	29,311,848	22,376,387
Acquisition of subsidiaries	—	253,322
Disposal of a subsidiary	(60,000)	—
Additions	72,822,699	169,186,373
Disposals	(93,045,954)	(163,496,603)
Changes in fair value	389,282	695,240
Transfer from long-term investments measured at fair value through profit or loss	—	411,558
Exchange gains/(losses)	428,035	(114,429)
At the end of the year	9,845,910	29,311,848
Net unrealized (losses)/gains for the year	51,031	87,425

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 20), and short-term investments measured at fair value through profit or loss (Note 20). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows or market approach, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of December 31,			As of December 31,		
	2022	2021		2022	2021	
	RMB'000	RMB'000				
Long-term investments measured at fair value through profit or loss	45,232,193	43,568,003	Expected volatility	26%–99%	34%–77%	The higher the expected volatility, the lower the fair value
— Ordinary shares investments and preferred shares investments			Discount for lack of marketability ("DLOM")	2%–30%	10%–30%	The higher the DLOM, the lower the fair value
			Risk-free rate	0.2%–5%	0.1%–5%	The higher the risk-free rate, the higher the fair value
— Other investments (Note(a))	6,200,395	2,249,634	N/A	N/A	N/A	N/A
	51,432,588	45,817,637				
Short-term investments measured at fair value through profit or loss	9,845,910	29,311,848	Expected rate of return	1%–4%	1%–5%	The higher the expected rate of return, the higher the fair value

Note:

(a) The Group determines the fair values of its long-term other investments (Note 20(v)) as at the reporting date based on the reported net asset values of the respective investments as provided by financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 5% higher/lower, the profit before income tax for the year ended December 31, 2022 would have been approximately RMB3,291,294,000 (2021: RMB3,971,278,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2022, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering or lifting of sale restriction of the investee companies.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, short-term investments measured at amortized cost, long-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowings, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

(b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health, collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measures, changes in macroeconomic indicators etc. Further details are included in Note 3.1 to the consolidated financial statements.

(c) Current and deferred income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

4 Critical accounting estimates and judgments (continued)

(d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

(e) Recoverability of non-financial assets and investments accounted for using the equity method

The Group tests annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property and equipment, intangible assets, investment properties, right-of-use assets as well as investments accounted for using the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of non-financial assets is the greater of its fair value less costs of disposal and value in use. In determining fair values, various applicable valuation techniques (e.g. discounted cash flows or market approach) are used, with significant unobservable inputs including expected volatility, discount for lack of marketability and risk free rates, etc. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue, operating costs and discount rates.

Judgment is required to identify any impairment indicators existing for any of the Group's goodwill, other non-financial assets to determine appropriate impairment approaches, i.e., fair value less costs of disposal or value in use, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statements.

(f) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and estimated cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

4 Critical accounting estimates and judgments (continued)

(g) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

5 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of net (losses)/profits of investments accounted for using the equity method, other income, other losses, net, finance income, finance costs and income tax expenses are also not allocated to individual operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services including online game and fintech business. Others segment primarily comprises revenue from the Group's sale of buildings, hardware repair services for products, installation services for certain IoT products and sale of materials.

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) bandwidth, server custody and cloud service related costs, and (ii) content fees to game developers. Cost of sales for others segment primarily consists of development costs of buildings, hardware repair costs, installation costs and costs from sale of materials. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the years ended December 31, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

The segment results for the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31, 2022				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	**167,217,177**	**79,794,877**	**28,321,444**	**4,710,518**	**280,044,016**
Cost of sales	**(152,248,415)**	**(68,296,397)**	**(7,974,356)**	**(3,947,658)**	**(232,466,826)**
Gross profit	**14,968,762**	**11,498,480**	**20,347,088**	**762,860**	**47,577,190**

	Year ended December 31, 2021				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	208,868,944	84,980,097	28,211,739	6,248,365	328,309,145
Cost of sales	(184,007,856)	(73,888,603)	(7,316,598)	(4,835,147)	(270,048,204)
Gross profit	24,861,088	11,091,494	20,895,141	1,413,218	58,260,941

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

For the years ended December 31, 2022 and 2021, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2022		2021	
	RMB'000	%	RMB'000	%
Mainland China	142,258,417	50.8	164,717,704	50.2
Rest of the world (Note (a))	137,785,599	49.2	163,591,441	49.8
	280,044,016		328,309,145	

Note:

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

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2022 and 2021 are listed as below:

	Year ended December 31,	
	2022	2021
	%	%
Customer A	13.4	13.7

All the revenues derived from other single external customer were less than 10% of the Group's total revenues for the years ended December 31, 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

6 Revenue

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Smartphones	167,217,177	208,868,944
IoT and lifestyle products	79,794,877	84,980,097
Internet services	28,321,444	28,211,739
Others	4,710,518	6,248,365
	280,044,016	328,309,145

7 Other income

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Government grants	604,051	185,915
Dividend income	125,299	169,679
Value-added tax and other tax refunds	108,081	165,895
Additional deduction of input value-added tax	298,129	305,367
	1,135,560	826,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

8 Other losses, net

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Gains on disposal and deemed disposal of investments accounted for using the equity method (Note 12(b))	127,310	2,189,687
Foreign exchanges losses, net	(998,602)	(483,287)
Impairment on investments accounted for using the equity method (Note 12(b))	(450,948)	(3,868,006)
Remeasurement loss for an associate in step-up acquisition	—	(409,257)
Others	(46,570)	(8,644)
	(1,368,810)	(2,579,507)

9 Expenses by nature

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Cost of inventories sold and royalty fees	208,148,924	251,459,641
Provision for impairment of inventories (Note 24)	7,794,470	2,831,529
Employee benefit expenses (Note 10)	16,607,997	13,821,526
Depreciation of property and equipment, right-of-use assets and investment properties (Note 15, 17, 18)	2,310,951	1,804,312
Amortization of intangible assets (Note 16)	1,396,442	1,257,334
Promotion and advertising expenses	7,233,932	7,245,809
Content fees to game developers and video providers	3,137,676	2,812,893
Credit loss allowance	217,971	5,764
Consultancy and professional service fees	1,495,318	1,429,688
Cloud service, bandwidth and server custody fees	2,259,250	1,810,655
Warranty expenses	5,419,526	4,550,168
Auditor's remuneration		
— Audit services	54,618	56,116
— Non-audit services	29,000	34,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Expenses by nature (continued)

During the year ended December 31, 2022, the Group incurred expenses for the purpose of research and development of approximately RMB16,028,132,000 (2021: RMB13,167,088,000), which comprised employee benefits expenses of RMB9,639,067,000 (2021: RMB7,271,628,000). No significant development expenses had been capitalized during the year (2021: Nil).

10 Employee benefit expenses

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Wages, salaries and bonuses	**10,548,009**	9,396,137
Share-based compensation expenses (Note (i) and Note 29)	**2,497,358**	2,035,569
Contributions to pension plans	**1,315,876**	970,814
Other social security costs, housing benefits and other employee benefits	**2,246,754**	1,419,006
	16,607,997	13,821,526

Note:

(i) Share-based compensation expenses contain the expenses for share-based awards granted to the Group's employees and the expenses for Xiaomi Development Fund ("**Employee Fund**").

(a) Pensions — defined contribution plans

During the year ended December 31, 2022, no forfeited contributions were utilized by the Group to reduce its contributions for the current year (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group do not include any director of the Company for the years ended December 31, 2022 and 2021. All of these individuals have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2022 and 2021. The emoluments payable to the five highest paid individuals during the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Wages and salaries	**17,268**	13,585
Share-based compensation expenses	**326,448**	276,145
Contributions to pension plans	**192**	212
Discretionary bonuses	**363**	3,858
Other social security costs, housing benefits and other employee benefits	**275**	311
	344,546	294,111

The emoluments fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2022	2021
Hong Kong dollar ("**HK$**") 30,500,001 to HK$31,000,000	**—**	1
HK$31,000,001 to HK$31,500,000	**1**	—
HK$37,000,001 to HK$37,500,000	**—**	1
HK$46,500,001 to HK$47,000,000	**1**	—
HK$52,500,001 to HK$53,000,000	**1**	—
HK$64,500,001 to HK$65,000,000	**—**	1
HK$70,500,001 to HK$71,000,000	**—**	1
HK$72,500,001 to HK$73,000,000	**1**	—
HK$150,500,001 to HK$151,000,000	**—**	1
HK$197,500,001 to HK$198,000,000	**1**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(c) Benefits and interests of directors

The remuneration of every director is set out below:

During the year ended December 31, 2022:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive Directors						
LEI, Jun	—	—	—	—	—	—
LIN, Bin	—	—	—	—	—	—
LIU, De	—	—	—	—	—	—
Non-executive Directors						
LIU, Qin	—	—	—	—	—	—
Independent non-executive Directors						
CHEN, Dongsheng	516	—	—	—	—	516
WONG, Shun Tak (i)	946	—	—	—	—	946
TONG Wai Cheung Timothy (ii)	946	—	—	—	—	946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(c) Benefits and interests of directors (continued)

During the year ended December 31, 2021:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive Directors						
LEI, Jun	—	—	—	—	—	—
LIN, Bin	—	—	—	—	—	—
CHEW, Shou Zi (iii)	—	—	—	—	—	—
LIU, De	—	—	—	—	—	—
Non-executive Directors						
LIU, Qin	—	—	—	—	—	—
Independent non-executive Directors						
CHEN, Dongsheng	498	—	—	—	—	498
WONG, Shun Tak (i)	913	—	—	—	—	913
TONG Wai Cheung Timothy (ii)	913	—	—	—	—	913

Notes:

(i) HK$500,000 was paid to Mr. Wong Shun Tak during the years ended December 31, 2022 and 2021 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(ii) HK$500,000 was paid to Prof. Tong Wai Cheung Timothy during the years ended December 31, 2022 and 2021 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

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

10 Employee benefit expenses (continued)

(d) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2022 and 2021 or at any time during all the years presented.

(e) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted as of December 31, 2022 and 2021 or at any time during all the years presented.

(f) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted as of December 31, 2022 and 2021 or at any time during all the years presented.

(g) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as of December 31, 2022 and 2021 or at any time during all the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11 Finance income and costs

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	1,663,941	1,229,826

Interest income mainly represents interest income from bank deposits, including bank balances and term deposits.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Finance costs:		
Interest (income)/expense from liabilities to fund investors (Note 30)	(583,862)	2,057,133
Interest expense from borrowings (Note 34) and lease liabilities (Note 17)	1,132,892	804,087
Less: amount capitalized	(2,547)	(19,763)
	546,483	2,841,457

Finance costs have been capitalized on qualifying assets at average interest rates of 4.15% per annum for the year ended December 31, 2022 (2021: 4.11%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities

As of December 31, 2022 and 2021, the Company had the following major subsidiaries (including controlled structured entities):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2022	2021		
Subsidiaries Directly held:							
Xiaomi H.K. Limited	Hong Kong, limited liability company	April 7, 2010	HK$10,000	100%	100%	100%	Wholesale and retail of smartphones and ecosystem partners' products
Fast Pace Limited	British Virgin Islands, limited liability company	January 8, 2013	US$2	100%	100%	100%	Investment holding and investment activities
Xiaomi Ventures Limited	British Virgin Islands, limited liability company	March 21, 2013	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Singapore Pte. Ltd.	Singapore, limited liability company	December 23, 2013	Singapore Dollar ("**SGD**") 1 and US$641,879,420	100%	100%	100%	Sales of smart hardware
Xiaomi Best Time International Ltd.	Hong Kong, limited liability company	December 20, 2018	US$500,000,000	100%	100%	100%	Intra-group capital supervision, collection, remittance, credit guarantee and interest rate risk management
Subsidiaries Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$320,000,000	100%	100%	100%	Sales of smartphones, sales of ecosystem partners' products and provision of customer services
Beijing Xiaomi Electronics Co., Ltd.	Mainland China, limited liability company	January 9, 2012	US$27,000,000	100%	100%	100%	Sales of smart hardware

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2022 and 2021, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2022	2021		
Subsidiaries							
Indirectly held (continued):							
Beijing Xiaomi Mobile Software Co., Ltd. ("**Xiaomi Mobile**")	Mainland China, limited liability company	May 8, 2012	RMB1,288,000,000	100%	100%	100%	Software and hardware development and provision of software related services
Zhuhai Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	January 25, 2013	RMB2,000,000	100%	100%	100%	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	RMB951,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology India Private Limited ("**Xiaomi India**")	India, limited liability company	October 7, 2014	Indian Rupees ("**INR**") 207,450	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Guangzhou Xiaomi Information Service Co., Ltd.	Mainland China, limited liability company	December 29, 2016	RMB1,000,000	100%	100%	100%	Provision of advertising and promotion services
Xiaomi Home Commercial Co., Ltd.	Mainland China, limited liability company	June 27, 2017	RMB100,000,000	100%	100%	100%	Operation of retail stores
Red Better Limited	British Virgin Islands, limited liability company	October 8, 2013	–	100%	100%	100%	Investment activities
Green Better Limited	British Virgin Islands, limited liability company	December 9, 2013	US$1	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2022 and 2021, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2022	2021		
Subsidiaries Indirectly held (continued):							
People Better Limited	British Virgin Islands, limited liability company	April 22, 2014	US$1,000,001	100%	100%	100%	Investment activities
Xiaomi Home Technology Co., Ltd.	Mainland China, limited liability company	January 20, 2017	RMB80,000,000	100%	100%	100%	Operation of retail stores
Xiaomi Commercial Factoring (Tianjin) Co., Ltd.	Mainland China, limited liability company	March 21, 2018	US$380,000,000	100%	100%	100%	Commercial factoring business
PT. Xiaomi Technology Indonesia	Indonesia, limited liability company	April 23, 2018	Indonesian Rupiah ("**IDR**") 13,000,000,000	100%	100%	100%	Sales and production of smartphones, sales of television
Shenzhen Xiaomi Information Technology Co., Ltd.	Mainland China, limited liability company	September 29, 2019	RMB591,000,000	100%	100%	100%	Sales of smart hardware and provision of advertising and promotion services
Xiaomi Technology Netherlands B.V.	Netherlands, limited liability company	October 29, 2018	EUR1,000,000	100%	100%	100%	Sales of smart hardware
Shenzhen Xiaomi Communication Technology Co., Ltd.	Mainland China, limited liability company	March 9, 2020	RMB50,000,000	100%	100%	100%	Sales of smart hardware

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2022 and 2021, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2022	2021		
Subsidiaries Indirectly held (continued):							
Shanghai X-Ring Technology Co., Ltd.	Mainland China, limited liability company	December 7, 2021	RMB850,000,250	100%	100%	100%	Technical services, integrated circuit chip design and service
Tianxing Digital Technology Co., Ltd. ("**Tianxing Digital**")	Mainland China, limited liability company	December 26, 2013	RMB2,313,630,000	100%	100%	100%	Electronic payment technology services
Controlled structured entities (Note (a)):							
Xiaomi Inc.	Mainland China, limited liability company	March 3, 2010	RMB1,850,000,000	100%	100%	100%	E-commerce business
Tianjin Jinxing Venture Investment Co., Ltd.	Mainland China, limited liability company	December 26, 2013	RMB2,476,557,552	100%	100%	100%	Investment activities
Beijing Duokan Technology Co., Ltd.	Mainland China, limited liability company	February 10, 2010	RMB10,000,000	100%	100%	100%	Sales of e-book
Beijing Wali Internet Technologies Co., Ltd.	Mainland China, limited liability company	June 1, 2009	RMB2,100,000	100%	100%	100%	Provision of internet services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2022 and 2021, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2022	2021		
Controlled structured entities (Note (a)) (continued):							
Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	December 7, 2017	RMB11,729,043,962	20%	19%	20%	Investment activities
Youpin Information Technology Co., Ltd.	Mainland China, limited liability company	April 4, 2018	RMB50,000,000	100%	100%	100%	E-commerce business
Beijing Xiaomi Zhizao Equity Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	September 18, 2021	RMB1,493,000,000	46%	100%	46%	Investment activities
Xiaomi EV Technology Co., Ltd.	Mainland China, limited liability company	November 18, 2021	RMB646,298,102	100%	100%	100%	Smart electric vehicle business, technical services

Notes:

(a) The Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.

(b) The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.

(c) The English names of the subsidiaries are direct translation or transliteration of their Chinese registered names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Investments in associate accounted for using the equity method		
— Listed entities (Note (a))	2,918,299	5,200,905
— Unlisted entities	5,013,893	5,029,846
	7,932,192	10,230,751

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	10,230,751	12,781,995
Additions	24,530	2,335,559
Acquisition of subsidiaries	—	5,082
Disposals and transfers (Note (b))	(1,575,316)	(1,558,205)
Share of net (losses)/profits	(400,100)	275,013
Share of other comprehensive income/(loss)	57,211	(60,568)
Share of changes of other reserves	122,326	379,814
Dividends from associates	(76,262)	(59,933)
Impairment provision (Note (c))	(450,948)	(3,868,006)
At the end of the year	7,932,192	10,230,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

Notes:

(a) As of December 31, 2022, the fair value of the investments in associates which were listed entities was RMB4,204,010,000 (December 31, 2021: RMB12,618,111,000).

(b) In March, May, June and July 2022, the Group disposed in total 8,497,027 shares of Ninebot Limited and generated aggregate net gains of approximately RMB256,809,000.

On November 12, 2022, the Group derecognized the investment in iQIYI, Inc. ("**iQIYI**") after losing significant influence as a result of resignation of board representative, and recognized the investment as a financial asset measured at fair value through profit or loss, with a deemed disposal loss of RMB121,215,000.

(c) During the year ended December 31, 2022, the Group made an aggregate impairment provision of approximately RMB450,948,000 against the carrying amounts of certain investments in associates. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use. The impairment provision mainly resulted from significant or prolonged declines in values of these associates, mainly due to the adverse financial/business outlook of the associates or changes in the market environment of the underlying business.

In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projected by management with the key assumptions and estimates adopted in these cash flow projections including revenue growth rate, sales margin, terminal growth rate and discount rate. The pre-tax discount rate applied to the estimated cash flow projections was 16% with a terminal growth rate of 2% beyond the five-year period. In respect of the recoverable amount based on fair value less costs of disposal, market prices were used for those listed associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation and other relevant facts and circumstances, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

Set out below are the material associates of the Group as of December 31, 2022 and 2021. The associates as listed below are ordinary shares investment, which held directly by the Group. Mainland China is their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of incorporation	% of Ownership interest	Principal activities	Quoted fair value As of December 31, 2022 RMB'000	Quoted fair value As of December 31, 2021 RMB'000	Carrying amount As of December 31, 2022 RMB'000	Carrying amount As of December 31, 2021 RMB'000
Sichuan Xin Wang Bank Co., Ltd. ("**XW Bank**")	Mainland China	29.5	Provision of internet banking service	**NA**	NA	**1,898,174**	1,697,417
iQIYI (Note (i))	Cayman Islands	6.2	Provision of internet video streaming services	**NA**	1,419,913	**NA**	1,419,913

Note:

(i) In 2022, iQIYI was no longer be a material associate of the Group and the Group measured the investment in iQIYI as a financial asset at fair value through profit or loss. See details in Note 12(b)(b).

The associates of the Group have been accounted for using the equity method based on the financial information of the associates prepared under the accounting policies consistent with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

Set out below is the summarized financial information of material associate.

	XW Bank	
	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Summarized consolidated balance sheets		
Current assets	23,378,065	15,145,064
Non-current assets	61,442,073	41,971,293
Current liabilities	36,753,288	22,660,145
Non-current liabilities	41,632,363	28,702,255
Equity attributable to owners of the Company	6,434,487	5,753,957
Reconciliation to carrying amounts:		
Group's share of net assets attributable to owners of the associates	1,898,174	1,697,417
Carrying amount	1,898,174	1,697,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

	XW Bank	
	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Summarized consolidated income statements and consolidated statements of comprehensive income		
Revenue	3,644,466	2,641,315
Profit from operations	810,681	935,193
Profit before tax	806,738	928,398
Net profit	680,530	917,646
Total comprehensive income	680,530	917,646

In addition to the interests in the associate disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates at the end of the year	6,034,018	7,113,421
Aggregate amounts of the Group's share of:		
Net (loss)/profit	(647,701)	40,571
Other comprehensive income/(loss)	57,211	(70,942)
Total comprehensive loss	(590,490)	(30,371)

There are no contingent liabilities relating to the Group's interests in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2022 and 2021 are analyzed as follows:

	Year ended December 31, 2022 RMB'000	2021 RMB'000
Current income tax	2,267,077	4,135,298
Deferred income tax (Note 35)	(835,689)	998,500
Income tax expenses	1,431,388	5,133,798

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31, 2022 RMB'000	2021 RMB'000
Profit before income tax	3,933,956	24,417,033
Tax calculated at statutory income tax rate of 25% in mainland China (Note (a))	983,489	6,104,258
Tax effects of:		
— Effect of different tax rates in other jurisdictions (Note (b),(c),(d))	738,249	895,414
— Preferential income tax rates applicable to subsidiaries (Note (e))	(344,188)	(1,619,794)
— Tax losses and temporary differences for which no deferred income tax assets was recognized	679,419	358,367
— Expenses not deductible for income tax purposes	331,589	241,435
— Utilization of previously unrecognized deductible tax losses and temporary differences	(9,617)	(38,956)
— Recognition of previously unrecognized deductible tax losses and temporary differences	28,656	—
— Super Deduction for research and development expenses (Note (f))	(691,793)	(472,742)
— Income not subject to tax	(155,801)	(334,406)
— Reversal of deferred income tax assets	90,082	14,950
— Others	(218,697)	(14,728)
Income tax expenses	1,431,388	5,133,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 Income tax expenses (continued)

Notes:

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

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

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the share-based payments (Note 29), are not subject to any income tax.

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

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax under the two-tiered profits tax regime, which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess. However, for two or more connected entities, only one of them may elect the two-tiered profits tax rates.

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 25% to 35% on the assessable profits for the years presented, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

Certain subsidiaries in mainland China are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Xiaomi Mobile was qualified as a "Key Software Enterprise" in the third quarter of 2018 and renewed this qualification annually, hence it enjoys a preferential income tax rate of 10% from 2017 to 2022. The directors of the Company consider Xiaomi Mobile can still be qualified upon annual renewal in the first half of 2023 and hence continues to enjoy the preferential income tax rate of 10% for the year ended December 31, 2022.

Tianxing Digital was qualified as a "High and New Technology Enterprise" in November 2018 and renewed this qualification in December 2021, hence it enjoys a preferential income tax rate of 15% from 2018 to 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 Income tax expenses (continued)

Notes (continued):

(f) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The State Taxation Administration of The People's Republic of China ("**STA**") further announced in March 2021 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction until December 2023. The STA announced in September 2022 to increase the Super Deduction rate to 200% of their research and development expenses from October 1, 2022 to December 31, 2022. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the period.

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

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

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

14 Earnings per share

(a) Basic

Basic earnings per share for the years ended December 31, 2022 and 2021 are calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	**2,474,030**	19,339,321
Weighted average number of ordinary shares in issue (thousand shares)	**24,828,316**	24,927,461
Basic earnings per share (expressed in RMB per share)	**0.10**	0.78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Earnings per share (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the inclusion of potential ordinary shares from the convertible bonds would be anti-dilutive, it is not included in the calculation of diluted earnings per share.

For the years ended December 31, 2022 and 2021, the share options and RSUs granted by the Group's subsidiaries and associates had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted earnings per share.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	2,474,030	19,339,321
Weighted average number of ordinary shares in issue (thousand shares)	24,828,316	24,927,461
Adjustments for RSUs and share options granted to employees (thousand shares)	468,412	569,667
Adjustments for share consideration for acquisition of Zimi (thousand shares)	655	12,303
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	25,297,383	25,509,431
Diluted earnings per share (expressed in RMB per share)	0.10	0.76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property and equipment

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2022						
Cost	1,775,713	25,717	3,690,248	1,885,773	1,707,106	9,084,557
Accumulated depreciation	(876,772)	(19,356)	(173,072)	(1,050,736)	—	(2,119,936)
Net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621
Year ended December 31, 2022						
Opening net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621
Currency translation differences	1,333	163	—	2,262	74	3,832
Additions	628,619	9,358	—	348,766	2,237,311	3,224,054
Transfer from construction in progress to investment properties and buildings	—	—	991,793	—	(1,067,179)	(75,386)
Transfer from investment properties to buildings	—	—	74,566	—	—	74,566
Disposals	(8,408)	(2,039)	—	(52,962)	—	(63,409)
Depreciation charge (Note 9)	(384,379)	(3,358)	(109,040)	(493,280)	—	(990,057)
Closing net book amount	1,136,106	10,485	4,474,495	639,823	2,877,312	9,138,221
At December 31, 2022						
Cost	2,372,125	32,897	4,762,328	2,184,779	2,877,312	12,229,441
Accumulated depreciation	(1,236,019)	(22,412)	(287,833)	(1,544,956)	—	(3,091,220)
Net book amount	1,136,106	10,485	4,474,495	639,823	2,877,312	9,138,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property and equipment (continued)

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2021						
Cost	1,402,988	24,358	3,633,346	1,033,174	1,675,615	7,769,481
Accumulated depreciation	(643,957)	(17,283)	(86,084)	(716,500)	—	(1,463,824)
Net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
Year ended December 31, 2021						
Opening net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
Currency translation differences	(4,116)	(212)	—	(2,425)	(46)	(6,799)
Additions	471,452	1,713	—	901,423	1,120,435	2,495,023
Transfer from construction in progress to investment properties, buildings and others	—	—	33,014	—	(1,088,898)	(1,055,884)
Acquisition of subsidiaries	954	26	23,890	—	—	24,870
Disposals	(31,010)	(19)	—	(46,783)	—	(77,812)
Depreciation charge (Note 9)	(297,370)	(2,222)	(86,990)	(333,852)	—	(720,434)
Closing net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621
At December 31, 2021						
Cost	1,775,713	25,717	3,690,248	1,885,773	1,707,106	9,084,557
Accumulated depreciation	(876,772)	(19,356)	(173,072)	(1,050,736)	—	(2,119,936)
Net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621

Construction in progress as of December 31, 2022 and 2021 mainly comprises new office buildings and factories being constructed in mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property and equipment (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Administrative expenses	**147,520**	165,892
Selling and marketing expenses	**454,414**	291,287
Research and development expenses	**264,223**	201,678
Cost of sales	**123,900**	61,577
	990,057	720,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022					
Cost	1,696,639	4,566,090	2,185,896	465,941	8,914,566
Accumulated amortization	—	(2,258,648)	(775,872)	(300,887)	(3,335,407)
Net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159
Year ended December 31, 2022					
Opening net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159
Currency translation differences	—	1,524	7,587	4,830	13,941
Additions	—	33,390	31,227	378,198	442,815
Disposals	—	(6,607)	—	(3,190)	(9,797)
Amortization charge (Note 9)	—	(1,035,493)	(233,592)	(127,357)	(1,396,442)
Closing net book amount	1,696,639	1,300,256	1,215,246	417,535	4,629,676
At December 31, 2022					
Cost	1,696,639	4,592,900	2,239,030	857,031	9,385,600
Accumulated amortization	—	(3,292,644)	(1,023,784)	(439,496)	(4,755,924)
Net book amount	1,696,639	1,300,256	1,215,246	417,535	4,629,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021					
Cost	253,251	4,549,537	1,150,844	389,491	6,343,123
Accumulated amortization	—	(1,232,529)	(615,839)	(229,136)	(2,077,504)
Net book amount	253,251	3,317,008	535,005	160,355	4,265,619
Year ended December 31, 2021					
Opening net book amount	253,251	3,317,008	535,005	160,355	4,265,619
Currency translation differences	—	(40)	(2,104)	(2,112)	(4,256)
Additions	—	16,633	42,264	96,422	155,319
Acquisition of subsidiaries	1,443,388	—	999,291	41	2,442,720
Disposals	—	—	(941)	(21,968)	(22,909)
Amortization charge (Note 9)	—	(1,026,159)	(163,491)	(67,684)	(1,257,334)
Closing net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159
At December 31, 2021					
Cost	1,696,639	4,566,090	2,185,896	465,941	8,914,566
Accumulated amortization	—	(2,258,648)	(775,872)	(300,887)	(3,335,407)
Net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159

Note:

(a) Impairment test for goodwill

For the purpose of impairment tests of goodwill, goodwill is allocated to groups of CGUs. Such groups of CGUs represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2022 and 2021 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on VIU calculations by using the discounted cash flow method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

Note (continued):

(a) Impairment test for goodwill (continued)

(i) Impairment test for goodwill of Zimi

On July 5, 2021, the Group completed the acquisition of Zimi which mainly engages in the design, manufacture and sales of mobile charges and related products, and recognized goodwill amounting to RMB1,382,143,000, which was allocated to Zimi as it was monitored by management at Zimi level and goodwill impairment assessment was performed accordingly as of December 31, 2021. Under an internal group reorganization as completed in 2022, the Group has integrated Zimi with a business unit of the Group which has similar business with Zimi to maximize the synergy from the acquisition of Zimi. Accordingly, the goodwill arising from the acquisition of Zimi was reallocated to the aforesaid business unit as identified at the lowest level which management monitors the related goodwill for internal purposes.

The VIU was determined using discounted cash flows calculation which derived from the five-year financial projections plus a terminal value related to cash flows beyond the projection period (five-year period) extrapolated using estimated perpetual growth rate. For the impairment test as of December 31, 2022, the key assumptions used by management for VIU calculation include:

(1) the annual growth rate of revenue for a five-year period ranging from 9%–11% (2021: 5%–28%) for the business, the gross profit range from 17%–19% (2021: 17%–18%), which was determined by the management based on past performance and its expectation for market development;

(2) pre-tax discount rate of 22% (2021: 20%) was estimated by using the weighted average cost of capital ("**WACC**") method. The WACC was calculated by referring to public market data including risk free rate, market return, beta of comparable public companies etc. and the specific risk of the business;

(3) the estimated perpetual growth rate used in the VIU calculation for period beyond the projected period was 2% (2021: 2.5%), after making reference to long term inflation rate of the PRC.

As of December 31, 2022, the recoverable amount calculated based on VIU exceeded carrying value by RMB202,736,000 (2021: RMB196,358,000). Had annual growth rate of revenue for a five-year period been 5% lower or the pre-tax discount rate been 1% higher, the remaining headroom would be decreased to RMB81,133,000 and RMB56,531,000 (2021: RMB91,632,000 and RMB62,596,000) respectively.

Reasonably possible changes in key assumptions used in the impairment test of goodwill will not lead to the goodwill impairment loss as of December 31, 2022.

(ii) Impairment test for goodwill of others

The goodwill of others is mainly generated from the acquisitions of Duokan International Group Inc. and Wali International before 2015. Management forecasted the average annual revenue growth rate in five-year period is 5%, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates of 2% (2021: 2.5%). Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGUs.

The management performed impairment test for the goodwill and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2022 and 2021.

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(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

Amortization charges were expensed off in the following categories in the consolidated income statement:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Administrative expenses	146,744	88,735
Selling and marketing expenses	6,511	4,352
Research and development expenses	1,243,187	1,164,247
	1,396,442	1,257,334

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the years ended December 31, 2022 and 2021, no goodwill or other identifiable intangible assets have been impaired.

17 Leases

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
(i) The consolidated balance sheet includes the following amounts relating to leases:		
Right-of-use assets (Note (a))		
Land use rights	8,118,481	6,078,568
Servers and other equipment	488,430	1,244,915
Properties	1,757,332	1,965,161
Other assets	741	2,796
	10,364,984	9,291,440
Lease liabilities (Note (b))		
Current	(947,392)	(1,532,625)
Non-current	(1,464,736)	(1,748,529)
	(2,412,128)	(3,281,154)

Notes:

(a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.

(b) Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Leases (continued)

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
(ii) The consolidated income statement includes the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**1,248,886**	1,055,170
Interest expense (included in finance costs)	**101,484**	91,954
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	**463,732**	453,836
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	**255,966**	183,806
	2,070,068	1,784,766

Besides land use rights, the Group leases offices, warehouses, retail stores and servers.

The total cash outflow in financing activities for leases during the year ended December 31, 2022 was RMB1,281,785,000 (2021: RMB1,115,859,000), including principal elements of lease payments of approximately RMB1,180,301,000 (2021: RMB1,023,905,000) and related interest paid of approximately RMB101,484,000 (2021: RMB91,954,000), respectively.

18 Other non-current assets

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Right-of-use assets (Note 17)	**10,364,984**	9,291,440
Investment properties (Note (a))	**2,863,867**	2,890,635
Long-term deposits to suppliers	**1,256,373**	1,144,352
Prepayments for land use rights and construction	**258,567**	1,558,906
Others	**1,196,670**	1,058,175
	15,940,461	15,943,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note:

(a) Investment properties

	Buildings and facilities RMB'000	Land use rights RMB'000	Total RMB'000
COST			
At January 1, 2022	1,616,858	1,493,759	3,110,617
Addition	44,420	—	44,420
Transfer from property and equipment	75,386	—	75,386
Transfer to property and equipment	(80,286)	—	(80,286)
At December 31, 2022	1,656,378	1,493,759	3,150,137
ACCUMULATED DEPRECIATION			
At January 1, 2022	(40,866)	(179,116)	(219,982)
Charge for the year (Note 9)	(42,114)	(29,894)	(72,008)
Transfer to property and equipment	5,720	—	5,720
At December 31, 2022	(77,260)	(209,010)	(286,270)
NET BOOK VALUE			
At December 31, 2022	1,579,118	1,284,749	2,863,867

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

	Buildings and facilities RMB'000	Land use rights RMB'000	Total RMB'000
COST			
At January 1, 2021	787,189	499,453	1,286,642
Transfer from property and equipment	829,669	—	829,669
Transfer from land use rights	—	994,306	994,306
At December 31, 2021	1,616,858	1,493,759	3,110,617
ACCUMULATED DEPRECIATION			
At January 1, 2021	(22,170)	(51,225)	(73,395)
Charge for the year (Note 9)	(18,696)	(10,012)	(28,708)
Transfer from land use rights	—	(117,879)	(117,879)
At December 31, 2021	(40,866)	(179,116)	(219,982)
NET BOOK VALUE			
At December 31, 2021	1,575,992	1,314,643	2,890,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(i) Details of the Group's main investment properties and information about the fair value hierarchy as of December 31, 2022 and 2021 are as follows:

	As of December 31,			
	2022		2021	
	Carrying amount RMB'000	Fair value (level 3) RMB'000	Carrying amount RMB'000	Fair value (level 3) RMB'000
Main investment properties	2,784,676	3,477,280	2,880,990	3,557,980

The Group's investment properties were valued at December 31, 2022 for investment property units located in Haidian and Yizhuang, Beijing and Haizhu, Guangzhou by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalization of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31 2022. The key inputs were term yield and reversionary yield which ranged from 3% to 6% (2021: from 3% to 7%).

(ii) Property rental income earned during the year ended December 31, 2022 was approximately RMB104,505,000 (2021: RMB95,730,000). The investment property units have committed tenants for the next 3 years to 11 years (2021: 4 years to 12 years). As of December 31, 2022, as a lessor, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	As of December 31,	
	2022 RMB'000	2021 RMB'000
No later than 1 year	122,731	108,652
Later than 1 year and no later than 11 years	358,363	433,933
	481,094	542,585

(iii) Depreciation charges of approximately RMB72,008,000 for the year ended December 31, 2022 have been charged in profit or loss (2021: RMB28,708,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 Financial instruments by category

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets measured at fair value:		
— Long-term investments measured at fair value through profit or loss (Note 20)	55,979,974	50,113,702
— Short-term investments measured at fair value through profit or loss (Note 20)	9,845,910	29,311,848
— Short-term investments measured at fair value through other comprehensive income (Note 20)	449,109	710,865
— Bills receivables measured at fair value through other comprehensive income	40,003	14,033
Financial assets measured at amortized costs:		
— Trade receivables (Note 22)	11,795,074	17,985,503
— Loan receivables (Note 21)	7,829,563	5,109,034
— Other receivables	11,265,671	12,335,927
— Long-term investments measured at amortized cost (Note 20)	405,371	351,362
— Short-term investments measured at amortized cost (Note 20)	—	1,597,919
— Long-term bank deposits (Note 25(c))	16,788,346	16,195,419
— Short-term bank deposits (Note 25(c))	29,874,707	31,041,129
— Restricted cash (Note 25(b))	3,956,786	4,319,661
— Cash and cash equivalents (Note 25(a))	27,607,261	23,511,579
	175,837,775	192,597,981
Liabilities as per balance sheet		
Financial liabilities measured at fair value:		
— Liabilities to fund investors (Note 30)	806,000	—
Financial liabilities measured at amortized cost:		
— Trade payables (Note 31)	53,093,543	74,643,005
— Other payables	11,149,880	12,946,691
— Borrowings (Note 34)	23,644,002	26,246,840
— Liabilities to fund investors (Note 30)	14,053,228	14,892,666
— Lease liabilities (Note 17)	2,412,128	3,281,154
	105,158,781	132,010,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Amortized cost	—	1,597,919
— Fair value through other comprehensive income (i)	449,109	710,865
— Fair value through profit or loss (ii)	9,845,910	29,311,848
	10,295,019	31,620,632
Non-current assets		
Long-term investments measured at amortized cost (i)	405,371	351,362
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments (iii)	18,726,499	22,755,228
— Preferred shares investments (iv)	31,053,080	25,108,840
— Other investments (v)	6,200,395	2,249,634
	56,385,345	50,465,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

Movement of long-term investments measured at fair value through profit or loss is as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	50,113,702	35,215,319
Acquisition of subsidiaries	—	56,890
Additions and transfers	8,615,245	12,939,130
Disposals	(2,898,750)	(2,450,289)
Change in fair value	(2,046,690)	7,277,977
Transfer to long-term investments accounted for using the equity method	—	(2,003,688)
Transfer to short-term investments measured at fair value through profit or loss	—	(411,558)
Exchange gains/(losses)	2,196,467	(510,079)
At the end of the year	55,979,974	50,113,702

(i) Short-term investments measured at fair value through other comprehensive income and long-term investments measured at amortized cost

Short-term investments measured at fair value through other comprehensive income and long-term investments measured at amortized cost are mainly debt securities, denominated in HK$, US$ and RMB, where the contractual cash flows are solely principal and interest. The securities are mainly issued by corporates and banks and the fair value of such debt securities was determined based on quoted price on bond market. None of these investments are past due.

Debt securities that are only held for collection of contractual cash flows are measured at amortized cost. Debt securities that are held for both collection of contractual cash flows and for selling, are measured at fair value through other comprehensive income.

20 Investments (continued)

(ii) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB and US$, with expected rates of return ranging from 1.25% to 3.50% per annum for the year ended December 31, 2022 (2021: 1.17% to 5.40%). None of these investments are past due.

(iii) Ordinary shares investments

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Listed	10,283,622	12,312,622
Unlisted	8,442,877	10,442,606
	18,726,499	22,755,228

The fair values of the listed securities are determined based on the closing prices quoted in active markets (level 1: quoted price (unadjusted) in active markets). For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as Level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

(iv) Preferred shares investments

During the year ended December 31, 2022, the Group made aggregate preferred shares investments of RMB4,253,445,000 (2021: RMB6,866,153,000). These investees are principally engaged in sales of goods, provision of internet services and sales and development of integrated circuit.

The preferred shares investments in these investees are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. For the major assumptions used in the valuation for investment in private companies, please refer to Note 3.3.

(v) Other investments

Other investments mainly represents the debts investments issued by certain reputable bank or non-bank financial institutions. As the returns on these investment do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. The fair values are based on the reported net asset values of the respective investments as provided by financial institutions.

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

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value changes on ordinary shares investments	(4,341,258)	4,423,582
Fair value changes on preferred shares investments	2,265,456	3,000,810
Fair value changes on short-term investments measured at fair value through profit or loss	24,510	695,240
Fair value changes on other investments	389,282	12,501
	(1,662,010)	8,132,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 Loan receivables

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Unsecured loan	8,625,680	5,945,909
Secured loan	—	155,549
Less: credit loss allowance	(796,117)	(992,424)
	7,829,563	5,109,034

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals and vendors generally do not exceed 12 months. Loan receivables are denominated in RMB and US$.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

22 Trade receivables

Trade receivables analysis is as follows:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Third parties	11,704,830	17,855,759
Related parties	295,584	293,721
	12,000,414	18,149,480
Less: credit loss allowance	(205,340)	(163,977)
	11,795,074	17,985,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Trade receivables (continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
RMB	7,040,345	9,301,766
INR	501,725	1,602,814
US$	2,253,596	5,092,025
EUR	1,384,041	1,561,632
Others	615,367	427,266
	11,795,074	17,985,503

Movements on the Group's credit loss allowance of trade receivables are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	(163,977)	(200,760)
Credit loss allowance (recognized)/reversed	(44,745)	11,861
Receivables written off during the year as uncollectable	3,382	24,922
At the end of the year	(205,340)	(163,977)

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

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	9,325,061	15,740,356
3 to 6 months	1,946,964	1,477,059
6 months to 1 year	469,147	652,701
1 to 2 years	150,685	184,058
Over 2 years	108,557	95,306
	12,000,414	18,149,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Trade receivables (continued)

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group's expected loss rates are mainly determined based on the corresponding historical credit loss rates which are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the expected changes in macroeconomic factors, such as Consumer Price Index ("**CPI**"), Gross Domestic Product ("**GDP**") and Business Climate Index ("**BCI**"), and accordingly adjusts the historical loss rates based on expected changes in all factors identified. The loss allowance provisions as of December 31, 2022 and 2021 are determined as follows:

	Current	Up to 3 months past due	3 to 6 months past due	Over 6 months past due	Total
December 31, 2022:					
Expected loss rate	0.71%	2.24%	9.05%	60.32%	
Gross carrying amount (in thousand)	9,773,192	1,862,431	245,330	119,461	12,000,414
Loss provision (in thousand)	69,353	41,734	22,192	72,061	205,340
December 31, 2021:					
Expected loss rate	0.41%	2.34%	3.91%	59.20%	
Gross carrying amount (in thousand)	16,808,171	1,061,691	172,302	107,316	18,149,480
Loss provision (in thousand)	68,816	24,892	6,741	63,528	163,977

As of December 31, 2022 and 2021, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China, India and Europe who usually settle the amounts due by them within 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

23 Prepayments and other receivables

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	8,887,658	10,271,165
Recoverable value-added tax and other taxes	4,641,951	5,064,593
Prepayments to suppliers	1,567,950	1,044,032
Deposits to suppliers	321,879	440,784
Receivables from market development fund	153,919	181,217
Prepaid fees for patent expenses and other prepaid expenses	1,102,919	1,407,332
Receivables from employees related to Employee Fund (Note (a))	95,850	100,250
Receivables related to share options and RSUs granted to employees	159,302	180,915
Receivables for disposal of investments	251,733	—
Rent receivables	136,358	89,049
Others	1,258,972	1,072,547
	18,578,491	19,851,884

Note:

(a) Receivables from employees related to Employee Fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 29.

As of December 31, 2022 and 2021, the carrying amounts of other receivables were primarily denominated in RMB and US$ and approximated their fair value at each of the reporting dates. Other receivables that are measured at amortized costs included receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties, receivables from market development fund, receivables from employees related to Employee Fund, receivables related to share options and RSUs granted to employees, receivables for disposal of investments, rent receivables and others were considered to be of low credit risk, and thus the impairment provision recognized during the years ended December 31, 2022 and 2021 was limited to 12 months expected losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Inventories

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Raw materials	17,122,900	19,314,001
Finished goods	28,650,303	23,934,395
Work in progress	3,068,508	4,627,210
Spare parts	4,410,902	3,896,430
Others	655,638	1,957,057
	53,908,251	53,729,093
Less: provision for impairment (Note (a))	(3,470,360)	(1,331,147)
	50,437,891	52,397,946

Note:

(a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expense of inventory amounted to RMB7,794,470,000 for the year ended December 31, 2022 (2021: RMB2,831,529,000).

Provision for impairment movements for the years ended December 31, 2022 and 2021 are as below:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	(1,331,147)	(1,225,712)
Provision for impairment	(7,794,470)	(2,831,529)
Transfer to cost of sales upon sold	5,655,257	2,726,094
At the end of the year	(3,470,360)	(1,331,147)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Cash at bank and in hand	22,156,628	16,024,499
Short-term bank deposits with initial terms within three months	5,450,633	7,487,080
	27,607,261	23,511,579

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
RMB	13,247,547	10,544,501
US$	9,971,440	7,485,980
INR	844,278	2,237,912
EUR	1,165,271	1,196,449
Others	2,378,725	2,046,737
	27,607,261	23,511,579

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 1.33% per annum for the year ended December 31, 2022 (2021: 1.47%).

(b) Restricted cash

As of December 31, 2022, restricted cash mainly represented RMB363,479,000 held at People's Bank of China to meet the requirements of payment institutions. INR26,484,682,000 (equivalent to RMB2,229,481,000) short-term bank deposits in The Hongkong and Shanghai Banking Corporation Limited and INR11,003,750,000 (equivalent to RMB926,296,000) short-term bank deposits with initial terms within three months in Citibank, were restricted by Indian tax authorities due to the in-progress investigation described in Note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Cash and bank balances (continued)

(c) Term bank deposits

An analysis of the Group's term bank deposits as of December 31, 2022 and 2021 are listed as below:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Short-term bank deposits denominated in:		
RMB	8,709,906	4,702,000
INR	37	1,027,600
US$	21,164,764	25,311,529
	29,874,707	31,041,129
Long-term bank deposits denominated in:		
RMB	15,392,410	16,195,407
INR	141	12
US$	1,395,795	—
	16,788,346	16,195,419

Short-term bank deposits are bank deposits with original maturities over three months, under twelve months and redeemable on maturity. Long-term bank deposits are bank deposits with original maturities over twelve months and redeemable on maturity.

The effective interest rate of the short-term bank deposits and long-term bank deposits of the Group ranges from 1.65% to 5.87%, and 3.20% to 7.25% per annum for the year ended December 31, 2022, respectively (2021: from 0.35% to 7.40%, and from 3.10% to 7.25%, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares

(a) Share capital

Authorized:

As of December 31, 2022 and 2021, the total authorized number of ordinary shares is 270,000,000,000 shares with par value of US$0.0000025 per share.

Issued:

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2021		25,187,308	62	409	64,655,891
Exercise of share options and RSUs		71,119	—	3	649,543
Shares repurchased and cancelled		(323,305)	—	(5)	(6,699,313)
Issuance of ordinary shares to Share Scheme Trusts	(a)	39,236	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	—	698,434
Share issued for acquisition of Zimi		18,091	—	—	413,071
As of December 31, 2021		24,992,449	62	407	59,717,626
As of January 1, 2022		**24,992,449**	**62**	**407**	**59,717,626**
Exercise of share options and RSUs		**88,385**	**—**	**3**	**890,469**
Shares repurchased and cancelled		**(239,462)**	**—**	**(4)**	**(2,539,074)**
Issuance of ordinary shares to Share Scheme Trusts	(a)	**102,907**	**—**	**—**	**—**
Release of ordinary shares from Share Scheme Trusts	(a)	**—**	**—**	**—**	**1,315,868**
Share issued for acquisition of Zimi completed in 2021		**7,055**	**—**	**—**	**98,399**
As of December 31, 2022		**24,951,334**	**62**	**406**	**59,483,288**

Notes:

(a) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "**Share Scheme Trusts**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares (continued)

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2021	4,289	36,224
Shares repurchased	343,519	7,006,824
Shares cancelled	(323,305)	(6,699,318)
As of December 31, 2021	24,503	343,730
As of January 1, 2022	**24,503**	**343,730**
Shares repurchased	**235,248**	**2,386,143**
Shares cancelled	**(239,462)**	**(2,539,078)**
As of December 31, 2022	**20,289**	**190,795**

During the year ended December 31, 2022, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
January 2022	14,295	18.64	17.70	261,322,614
March 2022	35,209	14.60	13.46	498,281,463
April 2022	37,744	13.82	12.26	498,768,037
August 2022	26,500	11.50	10.90	297,458,009
September 2022	77,900	11.38	8.74	783,888,205
October 2022	27,600	9.46	8.32	243,760,413
December 2022	16,000	11.16	10.46	173,039,910
	235,248			2,756,518,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022	6,694,157	(3,218,845)	2,269,502	54,123	815,986	1,764,799	156,926	8,536,648
Appropriation to statutory reserves (Note (a))	–	–	384,506	–	–	–	–	384,506
Appropriation to general reserves	–	–	–	(1,898)	–	–	–	(1,898)
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 29)	2,821,775	–	–	–	–	–	–	2,821,775
– exercise of share options and restricted stock units	(793,005)	–	–	–	–	–	–	(793,005)
Share of other comprehensive income of investments accounted for using the equity method (Note 12(b))	–	–	–	–	–	–	57,211	57,211
Share of other reserves of investments accounted for using the equity method (Note 12(b))	–	–	–	–	122,326	–	–	122,326
Currency translation differences (Note (b))	–	3,599,871	–	–	–	–	–	3,599,871
Release of ordinary shares from Share Scheme Trust (Note 26(a)(a))	(1,307,612)	–	–	–	–	–	–	(1,307,612)
Transfer of share of other reserves to profit or loss upon disposal and deemed disposal of investments accounted for using equity method	–	–	–	–	(419,795)	–	–	(419,795)
Transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of investments accounted for using equity method	–	–	–	–	–	–	93,311	93,311
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(22,754)	(22,754)
Share consideration for acquisition of Zimi completed in 2021	–	–	–	–	(98,399)	–	–	(98,399)
Others	–	–	(21,174)	–	–	–	(3)	(21,177)
At December 31, 2022	7,415,315	381,026	2,632,834	52,225	420,118	1,764,799	284,691	12,951,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves (continued)

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	6,152,351	(1,883,731)	1,340,353	32,947	522,674	1,764,799	229,268	8,158,661
Appropriation to statutory reserves (Note (a))	–	–	929,149	–	–	–	–	929,149
Appropriation to general reserves	–	–	–	21,176	–	–	–	21,176
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 29)	1,792,841	–	–	–	–	–	–	1,792,841
– exercise of share options and restricted stock units	(568,233)	–	–	–	–	–	–	(568,233)
Share of other comprehensive loss of investments accounted for using the equity method (Note 12(b))	–	–	–	–	–	–	(60,568)	(60,568)
Share of other reserves of investments accounted for using the equity method (Note 12(b))	–	–	–	–	379,814	–	–	379,814
Currency translation differences (Note (b))	–	(1,335,114)	–	–	–	–	–	(1,335,114)
Release of ordinary shares from Share Scheme Trust (Note 26(a)(a))	(682,802)	–	–	–	–	–	–	(682,802)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(2,649)	(2,649)
Share consideration for acquisition of Zimi	–	–	–	–	(86,502)	–		(86,502)
Others	–	–	–	–	–	–	(9,125)	(9,125)
At December 31, 2021	6,694,157	(3,218,845)	2,269,502	54,123	815,986	1,764,799	156,926	8,536,648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves (continued)

Notes:

(a) In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made. With approvals obtained from respective boards of directors of these companies, the reserve fund can be used to offset accumulated deficit or to increase capital.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of US$ to presentation currency of RMB.

(c) Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 29 for detail.

28 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the "Xiaomi Corporation 2011 Employee Stock Option Plan" ("**2011 Plan**") with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the "2012 Employee Stock Incentive Plan" ("**Pre-IPO ESOP**"). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP is valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares approved was 2,512,694,900. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 1,568,094,311 Class B ordinary shares.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Share Award Scheme. The purpose of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 shares without shareholders' approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Pre-IPO ESOP

Share options granted to employees

The share options have graded vesting terms, and vest in different schedules from the grant date over one year, 2 years, 4 years, 5 years and 10 years, on condition that employees remain in service without any performance requirements. For vesting schedule as one year, all granted share options are vested on the first anniversary of the grant date. For vesting schedule as 2 years, 50% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next twelve months. For vesting schedule as 4 years, 50% of granted share options are vested on the second anniversary of the grant date, 25% of granted share options are vested on the third anniversary of the grant date, the remaining granted share options are vested on the fourth anniversary of the grant date. For vesting schedule as 5 years, 40% of granted share options are vested on the second anniversary of the grant date, and every 20% of granted share options are vested on the third, fourth and fifth anniversary of the grant date respectively. For vesting schedule as 10 years, the granted share options are vested through 10 years with 6% to 15% shares vested each year unequally.

Under Pre-IPO ESOP, the Company also granted performance-based share options to certain employees, which are generally vested over a 10-year term. The performance goals are determined by the Board of Directors. For those awards, evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

The options may be exercised at any time and from time to time only after the closing of the Qualified Public Offering or upon the approval of Board of Directors for all or any portion of the share options that have become vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2022	**466,216,237**	**0.08**
Forfeited during the year	**(28,049,666)**	**0.21**
Transferred to Share Scheme Trust (Note 26(a)(a))	**(12,883,200)**	**0.10**
Exercised during the year	**(79,409,578)**	**0.18**
Outstanding as of December 31, 2022	**345,873,793**	**0.05**
Exercisable as of December 31, 2022	**252,266,503**	**0.23**
Outstanding as of January 1, 2021	605,831,870	0.10
Forfeited during the year	(45,532,133)	0.16
Transferred to Share Scheme Trust (Note 26(a)(a))	(22,965,090)	0.10
Exercised during the year	(71,118,410)	0.18
Outstanding as of December 31, 2021	466,216,237	0.08
Exercisable as of December 31, 2021	284,064,415	0.27

The weighted-average remaining contract life for outstanding share options was 3.39 years as of December 31, 2022 (2021: 4.46 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

Fair value of share options

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

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

Share based awards granted to Lei Jun

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. ("**Xiaomi Finance**") pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. No share option was exercised for the years ended December 31, 2022 and 2021.

Share Award Scheme

RSUs granted to employees

The Company granted performance-based RSUs to the Company's employees under Share Award Scheme. The RSUs granted would vest in different schedules from the service commencement date over a certain service periods, on condition that employees remain in service and certain performance criteria is met. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Share Award Scheme (continued)

RSUs granted to employees (continued)

Movements in the number of RSUs granted to the Company's employees under Share Award Scheme and the respective weighted average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2022	359,723,827	2.74
Granted during the year	366,319,134	1.63
Forfeited during the year	(74,782,454)	2.18
Transferred to Share Scheme Trust (Note 26(a)(a)) and others	(81,670,743)	2.43
Outstanding as of December 31, 2022	569,589,764	2.15
Outstanding as of January 1, 2021	175,401,118	1.65
Granted during the year	266,536,527	3.22
Forfeited during the year	(28,319,505)	2.65
Transferred to Share Scheme Trust (Note 26(a)(a))	(53,894,313)	1.65
Outstanding as of December 31, 2021	359,723,827	2.74

The weighted-average remaining contract life for outstanding RSUs granted under Share Award Scheme was 8.83 years as of December 31, 2022 (2021: 8.99 years).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Post-IPO Share Option Scheme

Share options granted to employees

The Company granted performance-based share options to the Company's employees under Post-IPO Share Option Scheme. The share options have graded vesting terms, and vest in different schedules from the service commencement date over 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as 4 years, the granted share options are vested through 4 years with 25% to 50% shares vested on the second, third and fourth anniversary of the service commencement date unequally. For vesting schedule as 5 years, every 20% of granted share options are vested on the first, second, third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 50% of granted share options are vested on the fifth anniversary of the service commencement date, and every 10% of granted share options are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of the performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (HK$)
Outstanding as of January 1, 2022	121,900,000	24.53
Forfeited during the year	(1,200,000)	24.50
Outstanding as of December 31, 2022	120,700,000	24.53
Exercisable as of December 31, 2022	5,862,500	20.79
Outstanding as of January 1, 2021	227,250,000	24.26
Granted during the year	6,250,000	33.90
Forfeited during the year	(111,600,000)	24.50
Outstanding as of December 31, 2021	121,900,000	24.53
Exercisable as of December 31, 2021	2,350,000	21.02

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Post-IPO Share Option Scheme (continued)

Share options granted to employees (continued)

The weighted-average remaining contract life for outstanding share options was 7.69 years as of December 31, 2022 (2021: 8.53 years).

Fair value of share options

The Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31, 2021
Fair value per share	HK$33.90
Exercise price	HK$33.90
Risk-free interest rate	0.78%
Dividend yield	—
Expected volatility	43.03%
Expected terms	10 years

The weighted-average fair value of granted share options was HK$15.07 per share for the year ended December 31, 2021.

The total expenses recognized in the consolidated income statement for share options and RSUs granted to the Group's employees under all share schemes are RMB2,821,900,000 for the year ended December 31, 2022 (2021: RMB1,792,986,000).

Employee fund

On August 31, 2014, the Board of Directors of the Company approved the establishment of Employee Fund with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "**Lockup Period**"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of December 31, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Employee fund (continued)

The total expenses reversed and recognized in the consolidated income statements for the Employee Fund granted to the Group's employees are RMB324,542,000 and RMB242,583,000 for the years ended December 31, 2022 and 2021, respectively.

30 Other non-current liabilities

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Liabilities to fund investors (Note (a))	14,859,228	14,892,666
Lease liabilities (Note 17)	1,464,736	1,748,529
Others	210,867	272,454
	16,534,831	16,913,649

Note:

(a) It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業（有限合夥）) (the "**Hubei Fund**") and Beijing Xiaomi Zhizao Equity Investment Fund Partners (Limited Partnership) (北京小米智造股權投資基金合夥企業（有限合夥）) (the "**Beijing Fund**"). The Group controls the Hubei Fund and the Beijing Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and the Beijing Fund, and has the ability to affect those returns through its power over the Hubei Fund and the Beijing Fund.

For the amount raised from limited partners of the Hubei Fund, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.

For the amount raised from limited partners of the Beijing Fund, the Group has contractual obligation to settle the liability with the limited partners and the management designates it as a financial liability measured at fair value through profit or loss in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

31 Trade payables

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

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

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Up to 3 months	47,999,500	70,187,231
3 to 6 months	1,820,555	2,526,217
6 months to 1 year	2,172,721	1,343,318
1 to 2 years	855,854	490,484
Over 2 years	244,913	95,755
	53,093,543	74,643,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

32 Other payables and accruals

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Amounts collected for third parties	842,068	1,407,164
Payroll and welfare payables	2,535,922	3,020,943
Deposits payable	4,335,731	4,358,177
Employee Fund (Note 29)	811,018	1,174,494
Accrual expenses	1,752,006	1,540,780
Payables for construction cost	1,748,373	1,466,372
Payables for investments	93,866	117,733
Other taxes payables	886,005	1,061,927
Lease liabilities (Note 17)	947,392	1,532,625
Payables related to share options and RSUs granted to employees	55,133	234,185
Deposits from customers	1,607,408	1,801,142
Payables under letter of credit	271,630	1,152,417
Deferred government grants	1,169,511	121,533
Others	1,384,653	1,235,007
	18,440,716	20,224,499

The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values as of December 31, 2022 and 2021.

33 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

Contract liabilities are presented in advance from customers, which are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2022, the total contract liabilities amounted to RMB8,756,344,000 (2021: RMB8,490,742,000), which will be recognized as revenue within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Included in non-current liabilities		
Secured borrowings (Note (a))	102,325	1,576,761
Unsecured borrowings (Note (b))	16,656,195	15,004,487
Convertible bonds (Note (c))	4,734,741	4,138,542
	21,493,261	20,719,790
Included in current liabilities		
Secured borrowings (Note (a))	3,283	507,217
Unsecured borrowings (Note (b))	2,147,458	5,019,833
	2,150,741	5,527,050

Notes:

(a) As of December 31, 2022, RMB105,608,000 (December 31, 2021: RMB2,083,978,000) of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB1,595,297,000 (December 31, 2021: RMB8,468,767,000). The interest rate of these borrowings was 4.05%–4.41% (December 31, 2021: 4.05%–4.66%) per annum.

(b) As of December 31, 2022, other than the interest rate of 14.30% (December 31, 2021: 17.65%–26.00%) for unsecured borrowings in Turkish Lira ("**TRY**") 189,466,000 (December 31, 2021: TRY24,403,000) which was equivalent to RMB70,538,000 (December 31, 2021: RMB11,768,000), the interest rate of the remaining unsecured borrowings was 2.10% to 4.10% (December 31, 2021: 0.48% to 6.00%) per annum.

(c) On December 17, 2020, the Group completed the issuance of 7-Year US$855,000,000 zero coupon guaranteed convertible bonds due on December 17, 2027 (the "**Bonds**") to third party professional investors (the "**bondholders**"). The bondholders have the right, at any time on or after January 27, 2021 up to the 10 days prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Group at a conversion price of HK$36.74 per share, subject to adjustments. The outstanding principal amount of the Bonds is repayable by the Group upon the maturity of the Bonds on December 17, 2027, if not previously redeemed, converted or purchased and cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings (continued)

Notes (continued):

(c) (continued):

The liability component of the Bonds recognized in the balance sheet are calculated as follows:

	RMB'000
Liability component as of January 1, 2021	4,044,014
Interest accrued	189,271
Effect of foreign currency translation	(94,743)
Liability component as of December 31, 2021	4,138,542
Liability component as of January 1, 2022	**4,138,542**
Interest accrued	**206,933**
Effect of foreign currency translation	**389,266**
Liability component as of December 31, 2022	**4,734,741**

The equity component of the Bonds of RMB1,764,799,000 was included in "Reserves" (Note 27) of the Group as of December 31, 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

The amount of offsetting deferred income tax assets and liabilities is RMB282,887,000 as of December 31, 2022 (2021: RMB191,971,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	**719,953**	539,524
— to be recovered within 12 months	**1,841,109**	1,314,394
	2,561,062	1,853,918
Deferred income tax liabilities:		
— to be settled after 12 months	**(1,231,328)**	(1,359,808)
— to be settled within 12 months	**(34,815)**	(34,880)
	(1,266,143)	(1,394,688)

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

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**1,853,918**	2,077,468
Credited/(debited) to the consolidated income statement	**707,144**	(237,317)
Acquisition of subsidiaries	**—**	13,767
At the end of the year	**2,561,062**	1,853,918

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Deferred income taxes (continued)

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

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**(1,394,688)**	(366,952)
Credited/(debited) to the consolidated income statement	**128,545**	(761,183)
Acquisition of subsidiaries	**—**	(266,553)
At the end of the year	**(1,266,143)**	(1,394,688)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Accrued liabilities and provisions RMB'000	Provision for impairment of inventories RMB'000	Depreciation of property and equipment and amortization of intangible assets RMB'000	Tax losses RMB'000	Fair value changes of financial assets RMB'000	Credit loss allowance RMB'000	Unrealized gain on intra-group transactions RMB'000	Business combination RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022	432,232	237,069	45,146	318,964	82,770	171,181	473,912	–	92,644	1,853,918
Credited/(debited) to consolidated income statement	253,869	254,476	(1,970)	133,862	7,076	(129,742)	148,112	–	41,461	707,144
At December 31, 2022	686,101	491,545	43,176	452,826	89,846	41,439	622,024	–	134,105	2,561,062
At January 1, 2021	521,008	226,726	51,133	430,977	68,872	483,518	253,861	–	41,373	2,077,468
(Debited)/credited to consolidated income statement	(88,776)	10,343	(5,987)	(112,013)	13,898	(312,337)	220,051	(13,767)	51,271	(237,317)
Acquisition of subsidiaries	–	–	–	–	–	–	–	13,767	–	13,767
At December 31, 2021	432,232	237,069	45,146	318,964	82,770	171,181	473,912	–	92,644	1,853,918

Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

As of December 31, 2022, the Group did not recognize deferred income tax assets of RMB1,365,921,000 (2021: RMB700,498,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB6,855,803,000 (2021: RMB3,389,642,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2022 amounting to RMB1,838,100,000 (2021: RMB1,133,506,000) can be carried forward indefinitely, and the remaining amount of RMB4,018,848,000 (2021: RMB1,767,648,000) will expire within 12 years (2021: 10 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows (continued):

Deferred income tax liabilities:

	Fair value changes of financial assets RMB'000	Depreciation of property and equipment and amortization of intangible assets RMB'000	Unrealized exchange gain RMB'000	Business combination RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022	(1,105,849)	(62,594)	—	(223,353)	(2,892)	(1,394,688)
Credited/(debited) to consolidated income statement	332,107	(85,350)	(140,282)	34,880	(12,810)	128,545
At December 31, 2022	(773,742)	(147,944)	(140,282)	(188,473)	(15,702)	(1,266,143)
At January 1, 2021	(325,333)	(39,108)	—	(2,511)	—	(366,952)
(Debited)/credited to consolidated income statement	(780,516)	(23,486)	—	45,711	(2,892)	(761,183)
Acquisition of subsidiaries	—	—	—	(266,553)	—	(266,553)
At December 31, 2021	(1,105,849)	(62,594)	—	(223,353)	(2,892)	(1,394,688)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information

(a) Cash (used in)/generated from operations

	Year ended December 31, 2022 RMB'000	2021 RMB'000
Profit before income tax	3,933,956	24,417,033
Adjustments for:		
— Depreciation of property and equipment, right-of-use assets and investment properties	2,310,951	1,804,312
— Amortization of intangible assets	1,396,442	1,257,334
— Gain on disposal of property and equipment	(6,887)	(4,336)
— Credit loss allowance	217,971	5,764
— Provision for impairment of inventories	7,794,470	2,831,529
— Impairment provision for investments accounted for using the equity method (Note 8)	450,948	3,868,006
— Interest income	(1,663,941)	(1,229,826)
— Interest expense	546,483	2,841,457
— Dividend income	(125,299)	(169,679)
— Share of net losses/(profits) of investments accounted for using the equity method	400,100	(275,013)
— Gains on disposal and deemed disposal of investments accounted for using the equity method	(127,310)	(2,189,687)
— Loss on disposal of a subsidiary	(458)	—
— Fair value changes on investments measured at fair value through profit or loss	1,662,010	(8,132,133)
— Share-based compensation	2,497,358	2,035,569
— Foreign exchange losses, net	998,602	483,287
— Remeasurement loss for an associate in step-up acquisition	—	409,257
Operating cash flows before changes in working capital		
— Increase in inventories	(5,448,990)	(13,746,697)
— Decrease/(increase) in trade receivables	4,346,873	(7,548,686)
— (Increase)/decrease in loan receivables	(2,545,224)	3,706,922
— Decrease/(increase) in prepayments and other receivables	1,444,782	(4,370,414)
— Decrease in restricted cash	350,688	1,007,208
— (Decrease)/increase in trade payables	(20,514,286)	2,456,421
— Increase/(decrease) in advance from customers	298,782	(2,713,524)
— Increase in warranty provision	1,311,348	1,328,677
— (Decrease)/increase in other payables and accruals	(540,598)	4,068,696
— Increase in other non-current liabilities	41,776	86,306
Cash (used in)/generated from operations	(969,453)	12,227,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information (continued)

(b) Non-cash investing and financing transactions

Other than addition of right-of-use assets and lease liabilities described in Note 17, the dilution gains of investments accounted for using the equity method recognized described in Note 12(b), transfer of investments accounted for using the equity method to financial assets at fair value through profit or loss as described in Note 12(b) and Note 20, recognized long-term deposits to suppliers with credit to payable under letter of credit as described in Note 18 and Note 32 and the issue of shares as consideration for acquisition of Zimi, there were no material non-cash investing and financing transactions for the years ended December 31, 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information (continued)

(c) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities					
	Borrowing due within 1 year RMB'000	Borrowing due after 1 year RMB'000	Interest payable RMB'000	Liabilities to fund investors RMB'000	Lease liabilities RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2022	**5,527,050**	**20,719,790**	**146,651**	**14,892,666**	**3,281,154**	**44,567,311**
Cash flows	**(2,214,278)**	**(577,060)**	**(1,020,229)**	**550,424**	**(1,281,785)**	**(4,542,928)**
Accrued interest expenses	**—**	**—**	**1,031,408**	**(583,862)**	**101,484**	**549,030**
Foreign exchange adjustments	**(4,221)**	**1,742,283**	**—**	**—**	**—**	**1,738,062**
Other non-cash movements (Note (a))	**(1,157,810)**	**(391,752)**	**—**	**—**	**311,275**	**(1,238,287)**
Liabilities from financing activities as of December 31, 2022	**2,150,741**	**21,493,261**	**157,830**	**14,859,228**	**2,412,128**	**41,073,188**
Liabilities from financing activities as of January 1, 2021	6,961,937	10,634,806	94,505	9,364,533	879,879	27,935,660
Cash flows	(1,918,308)	11,145,650	(659,987)	3,471,000	(1,115,859)	10,922,496
Accrued interest expenses	—	—	712,133	2,057,133	91,954	2,861,220
Foreign exchange adjustments	86,687	(416,359)	—	—	—	(329,672)
Other non-cash movements (Note (a))	396,734	(644,307)	—	—	3,425,180	3,177,607
Liabilities from financing activities as of December 31, 2021	5,527,050	20,719,790	146,651	14,892,666	3,281,154	44,567,311

Notes:

(a) It mainly resulted from the reclassification from non-current borrowing to current borrowing, the addition of leases and the maturity of discounted commercial bill acceptance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

37 Contingencies

The Group, in the ordinary course of its business, is involved in various claims, suits, and legal proceedings that arise from time to time. Since December 2021, Xiaomi India has been involved in various investigations and notifications initiated by relevant Indian authorities including the Income Tax Department, the Directorate of Revenue Intelligence and the Directorate of Enforcement in relation to compliance with relevant income tax regulations, custom duties regulations as well as foreign exchange regulations.

In connection with one of the investigations mentioned above, Xiaomi India received orders alleging Xiaomi India has inappropriately deducted certain costs and expenses, including purchase costs of mobile phones and royalty fees paid to third parties as well as companies within the Group when computing its taxable income; and as a result, confirming certain of its bank deposits continue to be restricted.

Management assessed the aforesaid matters related to Xiaomi India, taking into considerations opinions from professional advisors, and concluded Xiaomi India has valid grounds to respond to the relevant Indian authorities. The Group, hence, has not made any provision as of December 31, 2022 pertaining to these matters.

Conclusions of legal proceedings, investigations and allegations could take a long period of time, and the Group could receive judgments or enter into settlements that may adversely affect its operating results or cash flows. Quantifying the related financial effects is not practical at this stage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Property and equipment	2,366,080	808,342
Intangible assets	1,165,439	1,312,398
Investments	882,374	717,909
	4,413,893	2,838,649

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group has recognized right-of-use assets and lease liabilities for these leases, except for certain short-term leases, variable lease payments and leases contracted but before the commencement date as shown in the table below, see Note 17 for further information. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Not later than 1 year	289,127	256,271
Later than 1 year and not later than 5 years	681,126	8,308
Later than 5 years	855,925	36,132
	1,826,178	300,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the years presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Significant transactions with related parties

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
(i) Sales of goods and services		
Associates of the Group	1,413,135	2,135,603
Associates of Lei Jun	2,251	5,814
	1,415,386	2,141,417
(ii) Purchases of goods and services		
Associates of the Group	37,142,979	46,244,157
Associates of Lei Jun	2,741	8,890
	37,145,720	46,253,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(b) Year end balances with related parties

	As of December 31, 2022 RMB'000	2021 RMB'000
(i) Trade receivables from related parties		
Associates of the Group	292,583	283,520
Associates of Lei Jun	3,001	10,201
	295,584	293,721
(ii) Trade payables to related parties		
Associates of the Group	7,171,035	9,962,713
Associates of Lei Jun	1,767	164
	7,172,802	9,962,877
(iii) Other receivables from related parties		
Associates of the Group	294,097	497,770
Associates of Lei Jun	71,783	43,662
	365,880	541,432
(iv) Other payables to related parties		
Associates of the Group	85,431	351,001
Associates of Lei Jun	86,461	85,193
	171,892	436,194
(v) Prepayments		
Associates of the Group	160,699	150,553
(vi) Advance from customers		
Associates of the Group	37,838	28,643
Associates of the Lei Jun	80	4,956
	37,918	33,599

All the balances with related parties above were unsecured, non-interest bearing and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(c) Loans to related parties

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Loans to associates:		
At the beginning of the year	1,682	11,197
Loans advanced	80,940	4,213
Loans repaid	(47,393)	(17,576)
Interest charged	(182)	—
Less: credit loss allowance	(43,616)	4,126
Currency translation differences	10,505	(278)
At the end of the year	1,936	1,682

(d) Key management compensation

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Salaries	32,831	31,871
Discretionary bonuses	2,477	9,208
Share-based compensation	399,465	387,791
Employer's contribution to pension schedule	1,576	1,575
	436,349	430,445

40 Events after the reporting period

There were no material subsequent events during the period from January 1, 2023 to the approval date of these consolidated financial statements by the Board on March 24, 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31, 2022 RMB'000	2021 RMB'000
Assets		
Non-current assets		
Property and equipment	245	465
Investment in subsidiaries	37,524,599	29,543,762
Other assets	78	71
	37,524,922	29,544,298
Current assets		
Prepayments and other receivables	25,768,288	27,435,829
Cash and cash equivalents	228,538	272,458
	25,996,826	27,708,287
Total assets	63,521,748	57,252,585
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	406	407
Reserves (Note 41(b))	60,673,864	56,918,512
Total equity	60,674,270	56,918,919
Liabilities		
Current liabilities		
Other payables and accruals	2,847,478	333,666
	2,847,478	333,666
Total liabilities	2,847,478	333,666
Total equity and liabilities	63,521,748	57,252,585

The balance sheet of the Company was approved by the Board of Directors on March 24, 2023 and was signed on its behalf:

Lei Jun Lin Bin

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022	(343,730)	59,717,626	6,797,476	(1,566,437)	367,725	(9,725,539)	1,764,799	(93,408)	56,918,512
Purchase of own shares	(2,386,143)	–	–	–	–	–	–	–	(2,386,143)
Cancellation of shares	2,539,078	(2,539,074)	–	–	–	–	–	–	4
Release of ordinary shares from Share Scheme Trust	–	1,315,868	(1,307,612)	–	–	–	–	–	8,256
Employees share-based compensation scheme:									
– value of employee services (Note 29)	–	–	2,794,273	–	–	–	–	–	2,794,273
– exercise of share options and restricted stock units (Note 29)	–	890,469	(793,005)	–	–	–	–	–	97,464
Currency translation differences (Note (a))	–	–	–	3,721,116	–	–	–	–	3,721,116
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–	–	–	84,199	84,199
Share of other reserves of investments accounted for using the equity method	–	–	–	–	49,457	–	–	–	49,457
Share consideration for acquisition of Zimi completed in 2021	–	98,399	–	–	(98,399)	–	–	–	–
Loss for the year	–	–	–	–	–	(613,274)	–	–	(613,274)
At December 31, 2022	(190,795)	59,483,288	7,491,132	2,154,679	318,783	(10,338,813)	1,764,799	(9,209)	60,673,864

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company (continued)

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	(36,224)	64,655,891	6,255,525	(538,591)	362,509	(9,764,214)	1,764,799	(38,882)	62,660,813
Purchase of own shares	(7,006,824)	–	–	–	–	–	–	–	(7,006,824)
Cancellation of shares	6,699,318	(6,699,313)	–	–	–	–	–	–	5
Release of ordinary shares from Share Scheme Trust	–	698,434	(682,802)	–	–	–	–	–	15,632
Employees share-based compensation scheme:									
– value of employee services (Note 29)	–	–	1,792,986	–	–	–	–	–	1,792,986
– exercise of share options and restricted stock units (Note 29)	–	649,543	(568,233)	–	–	–	–	–	81,310
Currency translation differences (Note (a))	–	–	–	(1,027,846)	–	–	–	–	(1,027,846)
Share of other comprehensive loss of investments accounted for using the equity method	–	–	–	–	–	–	–	(54,526)	(54,526)
Share of other reserves of investments accounted for using the equity method	–	–	–	–	91,718	–	–	–	91,718
Share consideration for acquisition of Zimi	–	413,071	–	–	(86,502)	–	–	–	326,569
Profit for the year	–	–	–	–	–	38,675	–	–	38,675
At December 31, 2021	(343,730)	59,717,626	6,797,476	(1,566,437)	367,725	(9,725,539)	1,764,799	(93,408)	56,918,512

Note:

(a) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.

DEFINITIONS

"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Articles" or "Articles of Association"	the articles of association of the Company adopted on June 17, 2018 with effect from Listing and amended on June 2, 2022
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Auditor"	PricewaterhouseCoopers, the external auditor of the Company
"Beijing Digital Technology"	Beijing Xiaomi Digital Technology Co., Ltd.* (北京小米數碼科技有限公司), a limited liability company established under the laws of mainland China on December 21, 2010 and our indirect wholly-owned subsidiary
"Beijing Duokan"	Beijing Doukan Technology Co., Ltd.* (北京多看科技有限公司), a limited liability company established under the laws of mainland China on February 10, 2010 and our Consolidated Affiliated Entity
"Beijing Electronic Software"	Beijing Xiaomi Electronic Software Co., Ltd.* (北京小米電子軟件技術有限公司), a limited liability company established under the laws of mainland China on July 1, 2014 and our Consolidated Affiliated Entity
"Beijing Wali Culture"	Beijing Wali Culture Communication Co., Ltd.* (北京瓦力文化傳播有限公司), a limited liability company established under the laws of mainland China on May 8, 2014 and our Consolidated Affiliated Entity
"Beijing Wali Internet"	Beijing Wali Internet Technologies Co., Ltd.* (北京瓦力網絡科技有限公司), a limited liability company established under the laws of mainland China on June 1, 2009 and our Consolidated Affiliated Entity

"Beijing Wenmi"	Beijing Wenmi Culture Co., Ltd* (北京文米文化有限公司), a limited liability company established under the laws of mainland China on December 28, 2016 and our wholly-owned subsidiary
"Board"	our Board of Directors
"CEO"	chief executive officer
"CFO"	chief financial officer
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"Class A Shares"	class A ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company's general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
"Class B Shares"	class B ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meetings
"Co-founder"	Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", or "the Company"	Xiaomi Corporation 小米集团 (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010
"Compliance Advisor"	Guotai Junan Capital Limited, being the compliance advisor of the Company

DEFINITIONS

"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it in the Listing Rules
"Consolidated Affiliated Entities", each a "Consolidated Affiliated Entity"	the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries
"Contractual Arrangements"	the set of agreements that entered into by each of the WFOEs and the Onshore Holdcos for the purpose of operations of the Restricted Business of the Group in the PRC
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an interested in the Company, namely, Smart Mobile Holdings Limited and Smart Player Limited
"Director(s)"	the director(s) of the Company
"Group", "our Group", or "the Group"	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements) from time to time
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRS"	International Financial Reporting Standard
"Latest Practicable Date"	April 6, 2023, being the latest practicable date prior to the bulk printing and publication of this annual report

"Listing"	the listing of the Class B Shares on the Main Board of the Stock Exchange
"Listing Date"	July 9, 2018, the date on which the Shares were listed on the Stock Exchange
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"Onshore Holdcos" each a "Onshore Holdco"	(i) Beijing Wali Culture, (ii) Rigo Design, (iii) Xiaomi Inc., (iv) Beijing Doukan, (v) Beijing Wali Internet, (vi) Xiaomi Pictures, (vii) Beijing Electronic Software and (viii) Youpin Information Technology
"Pinecone International"	Pinecone International Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on November 7, 2014 and our indirect wholly-owned subsidiary
"Pinecone Share Option Scheme I"	the share option scheme adopted by Pinecone International on July 30, 2015 as amended from time to time
"Pinecone Share Option Scheme II"	the share option scheme adopted by Pinecone International on June 17, 2018 as amended from time to time
"Post-IPO Share Option Scheme"	the share option scheme adopted by the Company on June 17, 2018 as amended from time to time
"PRC"	the People's Republic of China
"PRC Legal Advisor"	JunHe LLP

DEFINITIONS

"Pre-IPO ESOP"	the pre-IPO employee stock incentive scheme adopted by the Company on May 5, 2011 and superseded on August 24, 2012 as amended from time to time
"Prospectus"	the prospectus of the Company dated June 25, 2018
"Registered Shareholders"	the registered shareholders of the Onshore Holdcos
"Reporting Period"	the year ended December 31, 2022
"Reserved Matters"	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company's auditors, and (iv) the voluntary liquidation or winding-up of the Company
"Rigo Design"	Rigo Design (Beijing) Co., Ltd.* (美卓軟件設計（北京）有限公司), a limited liability company established under the laws of mainland China on April 24, 2012 and our Consolidated Affiliated Entity
"RMB" or "Renminbi"	Renminbi, the lawful currency of mainland China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Post-IPO Share Award Scheme" or "Share Award Scheme"	the share award scheme adopted by the Company on June 17, 2018
"Share(s)"	the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"Tianjin Commercial Factoring"	Xiaomi Commercial Factoring (Tianjin) Co., Ltd* (小米商業保理（天津）有限責任公司), a limited liability company established under the laws of mainland China on March 21, 2018 and our indirect wholly-owned subsidiary
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"weighted voting rights" or "WVR"	has the meaning ascribed to it in the Listing Rules
"WFOEs", each a "WFOE"	Beijing Baien, Xiaomi Mobile Software, Beijing Wenmi, Beijing Digital Technology, Tianjin Commercial Factoring, Beijing Wali, Xiaomi Communications and Xiaomi Youpin Technology
"WVR Beneficiary"	has the meaning ascribed to it in the Listing Rules
"Xiaomi Communications"	Xiaomi Communications Co., Ltd* (小米通訊技術有限公司), a limited liability company established under the laws of mainland China on August 25, 2010 and our indirect wholly-owned subsidiary
"Xiaomi EV"	Xiaomi EV, Inc., an exempted company incorporated under the laws of the Cayman Islands with limited liability and a direct wholly-owned Subsidiary of the Company
"Xiaomi EV Share Option Scheme"	the share option scheme adopted by Xiaomi EV on October 25, 2021

DEFINITIONS

"Xiaomi Finance"	Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 15, 2018 and our direct wholly-owned subsidiary
"Xiaomi Finance Group"	Xiaomi Finance and its subsidiaries and consolidated affiliated entities from time to time
"Xiaomi Inc."	Xiaomi Inc.* (小米科技有限責任公司), a limited liability company established under the laws of mainland China on March 3, 2010 and our Consolidated Affiliated Entity
"Xiaomi Pictures"	Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity
"Xiaomi Youpin Technology"	Xiaomi Youpin Technology Co. Ltd.* (小米有品科技有限公司), a limited liability company established under the laws of mainland China on May 8, 2018 and our indirect wholly-owned subsidiary
"XMF Share Option Scheme I"	the first share option scheme adopted by Xiaomi Finance on June 17, 2018, as amended from time to time
"XMF Share Option Scheme II"	the second share option scheme adopted by Xiaomi Finance on June 17, 2018
"XM Group"	our Group other than the Xiaomi Finance Group
"Youpin Information Technology"	Youpin Information Technology Co., Ltd.*(有品信息科技有限公司), a limited liability company established under the laws of mainland China on April 4, 2018 and our Consolidated Affiliated Entity
"%"	per cent