

BUSINESS REVIEW AND OUTLOOK

1. Overall Performance

In the first quarter of 2023, despite the continued uncertainty in the global economy, we continued to execute our key corporate strategy of “dual emphasis on scale and profitability”. We prudently operated our core business segments and optimized our operating efficiency, while continuing to invest in the future. In the first quarter of 2023, our total revenue amounted to RMB59.5 billion and our adjusted net profit was RMB3.2 billion, which included RMB1.1 billion in expenses related to our smart Electric Vehicle (“EV”) business and other new initiatives.

We steadfastly executed our core “Smartphone × AIoT” strategy. According to Canalys, in the first quarter of 2023, we maintained our No. 3 global smartphone shipment ranking with 11.3% market share. In March 2023, our global monthly active users (“MAU”) of MIUI recorded another record high, reached 594.8 million, an increase of 12.4% year-over-year. As of March 31, 2023, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform increased to 618.0 million, up 29.2% year-over-year.

We further fortified our smartphone premiumization strategy. With the successful launch of the *Xiaomi 13 Series*¹ at the end of 2022, we achieved substantial progress in terms of solidifying our market share within the premium smartphone segment in mainland China. According to third-party data, in the first quarter of 2023, our smartphone units sold in the RMB4,000–RMB5,000 price segment ranked No. 1 in mainland China among Android smartphone brands, with a market share of 24.1%, representing a year-over-year increase of 7.7 percentage points. In the first quarter of 2023, the average selling price (“ASP”) of our smartphones in mainland China reached a new quarterly high, up more than 18% year-over-year. Shipments of our premium smartphones² as a percentage of our overall smartphone shipments in mainland China increased by 4.0 percentage points year-over-year. In April 2023, we unveiled the second offering in our strategic collaboration with Leica in mainland China — the *Xiaomi 13 Ultra*³. Upon its release, the *Xiaomi 13 Ultra* gained widespread user acclaim, earning positive ratings of over 99% on JD.com⁴. In less than one year, we released four consecutive premium smartphone models, and all of them received highly positive customer reviews in the first month after their market introduction. This remarkable performance has helped fortify the foundation of our smartphone premiumization strategy.

¹ Including *Xiaomi 13*, *Xiaomi 13 Pro* and *Xiaomi 13* in limited edition custom colors.

² Priced at or above RMB3,000 in mainland China.

³ Including *Xiaomi 13 Ultra* and *Xiaomi 13 Ultra* in limited edition custom colors.

⁴ As of May 21, 2023, based on ratings from JD.com’s Xiaomi self-operated flagship store.

We are committed to investing in our future, with continued investments in research and development. In the first quarter of 2023, our research and development expenses reached RMB4.1 billion, up 17.7% year-over-year. We expect our research and development expenses to exceed RMB20 billion in 2023. As of March 31, 2023, we had 16,458 research and development personnel, accounting for more than 50% of our employees. We continued to accumulate intellectual property to further advance our capabilities. As of March 31, 2023, we have obtained more than 32,000 patents worldwide. We consistently improved our innovative research and development capabilities through our technology talent. Recently, our camera algorithm team won four championships in the CVPR⁵ 2023-MIPI⁶ and CVPR 2023-NTIRE⁷ competitions, which are considered the top academic conferences in the field of computer vision. We are actively embracing the industry's imminent technological transformation driven by advancements in Artificial Intelligence (“AI”). We officially established an AI Lab Foundation Model team in April. At present, we have more than 1,200 AI-related employees. We will continue to expand AI-related user scenarios, maximize our advantages in technology, while also exploring opportunities with potential partners.

We effectively executed the Group's 2023 core operating strategy of “dual emphasis on scale and profitability”, and have delivered initial results. Owing to operational efficiency and other cost control measures, in the first quarter of 2023, the Group's gross profit margin reached a record high of 19.5%. The gross profit margin of our smartphone business reached 11.2% this quarter, an increase of 3.1 percentage points quarter-over-quarter. The Group's overall expenses in the first quarter was RMB9.4 billion, down 6.4% year-over-year. We continued to adhere to our prudent operating strategy at the same time. In the first quarter of 2023, our total inventory was RMB42.6 billion, down 24.1% year-over-year, hitting its lowest level in the past nine quarters.

2. Smartphones

In the first quarter of 2023, the global smartphone market remained weak. According to Canalys, global smartphone shipments in the first quarter decreased by 13.3% year-over-year, the lowest first quarter shipment level since 2014. In the first quarter of 2023, our smartphone revenue reached RMB35.0 billion and our global smartphone shipments amounted to 30.4 million units. We maintained our No. 3 global smartphone shipment ranking in the first quarter while holding our market share at 11.3%, according to Canalys.

⁵ Conference on Computer Vision and Pattern Recognition.

⁶ Mobile Intelligent Photography and Imaging.

⁷ New Trends in Image Restoration and Enhancement.

We continued to execute our dual-brand strategy. Under the Xiaomi brand, we launched our *Xiaomi 13 Ultra* smartphone in mainland China in April 2023, bringing Leica’s professional optical capabilities to the field of mobile optics. The *Xiaomi 13 Ultra* features a quad camera system and the upgraded Summicron Lens, which we co-developed with Leica. Under this collaboration, we offer users a master photography experience that includes, a one-inch main camera sensor with a variable aperture, as well as a 75mm telephoto lens, a 120mm super-telephoto lens, and a 122-degree field of view. We have also designed a professional camera photography kit that is tailored to the *Xiaomi 13 Ultra* smartphone, providing users with an experience that is on a par with professional photography equipment. Driven by our relentless effort to advance our cutting-edge technology, our exceptional photo-imaging capability has received widespread user recognition. We also launched *Xiaomi 13* and *Xiaomi 13 Pro* in the overseas markets in February 2023, marking the overseas market debut of our smartphone made in partnership with Leica.

Under the Redmi brand, in March 2023, we unveiled the *Redmi Note 12 Turbo Series*⁸ in mainland China. This series is equipped with the world’s first Qualcomm Snapdragon 7+ Gen 2 chipset, which was jointly developed with Qualcomm. The *Redmi Note 12 Turbo Series* features a super diffusion diversion VC cooling system and proprietary FEAS2.2 intelligent frame stabilization technology for lower power consumption and better heat dissipation. In addition, we brought users the *Redmi Note 12 Turbo Harry Potter Edition*, marking the world’s first smartphone launched in collaboration with the Harry Potter Series. After its market debut, the *Redmi Note 12 Turbo Series* continued to maintain tremendous popularity in the market.

3. IoT and lifestyle products

In the first quarter of 2023, revenue from our IoT and lifestyle products amounted to RMB16.8 billion. We continued to cultivate and refine our product offerings, achieving robust year-over-year growth in revenues from smart large home appliances during the quarter. In the first quarter of 2023, the gross profit margin of our IoT and lifestyle products reached 15.7%.

With respect to our smart TV business, we continued to optimize our product mix, bringing users a higher-quality viewing experience. According to All View Cloud (“AVC”), in the first quarter of 2023, our TV shipments maintained a top 5 ranking globally. In April 2023, we launched the *Xiaomi TV Master Mini LED 86*, equipped with the QD-Mini LED screen and new-generation highly dynamic display technology with 2,000 nits peak brightness, continually adjusting the picture quality of our premium smart TVs and providing a richer experience to our users.

In the first quarter of 2023, our portfolio of smart large home appliances⁹ continued to demonstrate robust growth momentum, with revenue increasing by over 60% year-over-year. In terms of air conditioners, we worked tirelessly to achieve breakthroughs in key technologies,

⁸ Including the *Redmi Note 12 Turbo* and the *Redmi Note 12 Turbo Harry Potter Edition*.

⁹ Including air conditioners, refrigerators and washing machines.

with a focus on our proprietary technology development. In the first quarter of 2023, our air conditioner shipments grew by over 60% year-over-year. We also consistently enhanced the diversity of our refrigerator product mix to bring more options to our users. In the first quarter of 2023, our refrigerator shipments were more than three-fold compared with the same period last year. As for washing machines, despite the more than 6% decline in the retail volume of washing machines in mainland China¹⁰, in the first quarter of 2023, our washing machine shipments exceeded 250,000 units and continued to achieve year-over-year growth, outperforming the market.

We have also developed key AIoT products spanning smart office, entertainment and health, to comprehensively meet users' increasingly diverse needs. In April 2023, we unveiled the *Xiaomi Pad 6 Series*¹¹, which includes an all-metal unibody design and 11-inch 2.8K LCD eye protection display, with built-in shortcuts that cater to different meeting scenarios. The *Xiaomi Pad 6 Series* incorporates a full upgrade in terms of product appearance, performance, display and meeting scenarios. We continued to strengthen the interface between smartphones and AIoT products through software collaboration. The *Xiaomi Pad 6 Series* supported NFC one-touch instant transmission, and its transmission can be done simultaneously without matching devices¹². As for wearable products, we launched the *Xiaomi Smart Band 8* with an upgraded quick-release mechanism, providing users with a smoother sports, health and entertainment experience. According to Canalys, in the first quarter of 2023, the shipments of our wearable bands¹³ and TWS earbuds both ranked No. 2 in mainland China.

In addition to meeting users' pursuit of cutting-edge technology, we also strive for product excellence and perfection in design in our AIoT products. In 2023, a total of 46 Xiaomi products, including *Xiaomi Buds 4 Pro*, *Xiaomi Watch S1 Pro* and *Xiaomi Watch S2*, won the 2023 iF Design Award. 24 Xiaomi products, including *Xiaomi TV Master Mini LED 86*, *Redmi Pad* and *Xiaomi Sound Move*, won 2023 Red Dot Design Award. Notably, our *Xiaomi Mijia Smart Desktop Dishwasher 5 S1* won the 2023 Red Dot Best of the Best Award.

4. Internet services

In the first quarter of 2023, our internet services revenue was RMB7.0 billion, while the gross profit margin of our internet services reached 72.3%.

In the first quarter of 2023, our global internet user base continued to expand. The MAU of MIUI globally and in mainland China both reached record highs once again. In March 2023, global MAU of MIUI reached 594.8 million, an increase of 12.4% year-over-year, while MAU of MIUI in mainland China reached 146.2 million, up 7.8% year-over-year. In March 2023, global MAU of our smart TV¹⁴ exceeded 60 million, increasing by over 18% year-over-year.

¹⁰ Data from AVC.

¹¹ Including *Xiaomi Pad 6* and *Xiaomi Pad 6 Pro*.

¹² This function is only enabled on certain models, and will be available on more models upon upgrades available on Mi Store, and the NFC function requires the smartphone and the tablet to be logged in under the same account.

¹³ Including basic bands, basic watches and smart watches.

¹⁴ Including *Xiaomi Box* and *Xiaomi TV Stick*.

In the first quarter of 2023, our advertising revenue reached RMB4.4 billion. As we enhanced and refined the operations of our advertising business by optimizing our monetization channels and improving our customer acquisition efficiency, revenue from overseas performance-based and brand advertising, once again, registered a new quarterly high.

According to CNG, in the first quarter of 2023, sales revenue in China’s mobile gaming market decreased by 15.1% year-over-year. Despite the market decline, we continuously optimized our strategy and enhanced the user stickiness across our paid subscriber base. For the first quarter of 2023, our gaming revenue reached RMB1.3 billion, an increase of 16.3% year-over-year, once again outperforming the market and marking seventh consecutive quarters of year-over-year increase.

Our overseas internet services have maintained robust growth trajectory. In the first quarter of 2023, revenue from our overseas internet services increased 16.4% year-over-year to RMB1.8 billion, accounting for 25.7% of our total internet services revenue, and was up 3.9 percentage points year-over-year.

5. Strategy updates

Smartphone × AIoT

We remain focused on executing our “Smartphone × AIoT” strategy. As of March 31, 2023, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 618.0 million, an increase of 29.2% year-over-year; the number of users with five or more devices connected to our AIoT platform (excluding smartphones, tablets and laptops) reached 12.3 million, representing a year-over-year increase of 29.6%. In March 2023, the MAU of our Mi Home App grew to 78.1 million, an increase of 18.8% year-over-year.

New retail

Following the successful acceleration of our offline channels’ expansion, we have entered the next stage with our new retail operations. In 2023, we set our new operating strategy to be the year of “storefront integration”. This year, our focus will be dedicated to improving the operating efficiency of our offline stores, expanding our scale in collaboration with our partners and integrating our resources effectively. According to third-party data, our offline smartphone shipment market share in mainland China reached 7.9% in the first quarter of 2023, a year-over-year increase of 1.4 percentage points. As a result of the growing synergy between our offline stores and our premiumization strategy, in the first quarter of 2023, our offline stores’ gross merchandise value (“GMV”) of smartphone products increased both year-over-year and quarter-over-quarter. Our new retail strategy has also effectively elevated the offline sales of our premium smartphones. As of May 17, 2023, offline channels contributed over 55% of total cumulative sales volume of the *Xiaomi 13 Series* and the *Xiaomi 13 Ultra*.

Corporate social responsibility (CSR)

We have fully incorporated environmental, social and governance practices into our business operations and management structure, and we actively promote sustainable corporate development. In April 2023, we published our 2022 ESG Report, our fifth consecutive year of ESG reporting. We are dedicated to helping avert climate change through cutting-edge technological innovations and operational efficiency optimization, accelerating the global transition to a net zero emission economy by infusing climate-conscious elements into the design-to-delivery process of our high-quality products. As part of our commitment, we have formulated a detailed action plan to reduce our Scope 1 and Scope 2 GHG¹⁵ emissions. Through its implementation, we plan to reduce GHG emissions from our main operating segments by at least 70% of the base year¹⁶ level by 2030. By no later than 2040, we expect to reduce GHG emissions from our main operating segments by at least 98% of the base year level, with pre-conditions in place to achieve net zero emissions. Going forward, we will keep promoting sustainable economic growth to empower the wellbeing of our users, employees, ourselves and society as a whole.

¹⁵ Greenhouse Gas.

¹⁶ Base year is 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2023 Compared with First Quarter of 2022

The following table sets forth the comparative figures for the first quarter of 2023 and the first quarter of 2022:

	Unaudited	
	Three months ended	
	March 31,	March 31,
	2023	2022
	(RMB in millions)	
Revenue	59,477.1	73,351.5
Cost of sales	(47,885.6)	(60,641.8)
Gross profit	11,591.5	12,709.7
Research and development expenses	(4,113.3)	(3,494.5)
Selling and marketing expenses	(4,103.8)	(5,256.2)
Administrative expenses	(1,135.2)	(1,244.6)
Fair value changes on investments measured at fair value through profit or loss	3,453.3	(3,550.3)
Share of net losses of investments accounted for using the equity method	(133.1)	(201.3)
Other income	164.8	164.9
Other gains/(losses), net	176.0	(39.1)
Operating profit/(loss)	5,900.2	(911.4)
Finance (costs)/income, net	(429.5)	495.3
Profit/(Loss) before income tax	5,470.7	(416.1)
Income tax expenses	(1,254.6)	(114.6)
Profit/(Loss) for the period	4,216.1	(530.7)
Non-IFRS measure: Adjusted Net Profit	3,233.3	2,858.6

Revenue

Revenue decreased by 18.9% to RMB59.5 billion in the first quarter of 2023 from RMB73.4 billion in the first quarter of 2022. The following table sets forth our revenue by line of business in the first quarter of 2023 and the first quarter of 2022:

	Unaudited			
	Three months ended		March 31, 2022	
	March 31, 2023		March 31, 2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	34,984.7	58.8%	45,762.7	62.4%
IoT and lifestyle products	16,833.8	28.3%	19,477.4	26.6%
Internet services	7,028.1	11.8%	7,112.5	9.7%
Others	630.5	1.1%	998.9	1.3%
Total revenue	<u>59,477.1</u>	<u>100.0%</u>	<u>73,351.5</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 23.6% from RMB 45.8 billion in the first quarter of 2022 to RMB35.0 billion in the first quarter of 2023, primarily due to the decrease in both our smartphone shipments and ASP. Our smartphone shipments decreased by 21.1% from 38.5 million in the first quarter of 2022 to 30.4 million in the first quarter of 2023, primarily due to the global smartphone market remained weak, marking the lowest first quarter shipment level seen since 2014. The ASP of our smartphones decreased by 3.1% from RMB1,188.5 per unit in the first quarter of 2022 to RMB1,151.6 per unit in the first quarter of 2023, primarily due to the enhanced efforts to clear our inventories in overseas market, partially offset by the increased ASP in mainland China with the contribution from our premium smartphone shipments in the first quarter of 2023.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment decreased by 13.6% from RMB19.5 billion in the first quarter of 2022 to RMB16.8 billion in the first quarter of 2023, primarily attributable to the decreased sales in smart TVs and laptops, and certain lifestyle products in the overseas markets, partially offset by the increased revenue from smart large home appliance category.

Revenue from smart TVs and laptops decreased by 24.2% from RMB6.2 billion in the first quarter of 2022 to RMB4.7 billion in the first quarter of 2023, mainly due to the decrease in both shipments and ASP of smart TVs and laptops.

Revenue from our smart large home appliance category, continued to deliver strong growth with revenue increasing by over 60% year-over-year in the first quarter of 2023, primarily due to the significant increase in shipments of our smart air conditioners and refrigerators.

Internet services

Revenue from our internet services segment decreased by 1.2% from RMB7.1 billion in the first quarter of 2022 to RMB7.0 billion in the first quarter of 2023, mainly due to the decrease in revenue from our fintech business and advertising business, partially offset by the increased revenue from gaming business. The overseas internet services revenue increased by 16.4% from RMB1.6 billion in the first quarter of 2022 to RMB1.8 billion in the first quarter of 2023 driven by the continued expansion of our overseas internet user base.

Others

Other revenue decreased by 36.9% from RMB1.0 billion in the first quarter of 2022 to RMB0.6 billion in the first quarter of 2023, primarily due to the decrease in revenue from the sales of buildings.

Cost of Sales

Our cost of sales decreased by 21.0% from RMB60.6 billion in the first quarter of 2022 to RMB47.9 billion in the first quarter of 2023. The following table sets forth our cost of sales by line of business in the first quarter of 2023 and the first quarter of 2022:

	Unaudited			
	Three months ended			
	March 31, 2023		March 31, 2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	31,051.7	52.2%	41,240.6	56.2%
IoT and lifestyle products	14,187.1	23.9%	16,435.4	22.4%
Internet services	1,948.4	3.3%	2,078.4	2.8%
Others	698.4	1.1%	887.4	1.3%
	<hr/>	<hr/>	<hr/>	<hr/>
Total cost of sales	<u>47,885.6</u>	<u>80.5%</u>	<u>60,641.8</u>	<u>82.7%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 24.7% from RMB41.2 billion in the first quarter of 2022 to RMB31.1 billion in the first quarter of 2023, primarily due to the decreased sales of our smartphones, as well as the decreased price of key components, such as memory and display panels.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment decreased by 13.7% from RMB16.4 billion in the first quarter of 2022 to RMB14.2 billion in the first quarter of 2023, primarily due to the decreased sales of our IoT and lifestyle products and the decreased price of key components, such as display panels.

Internet services

Cost of sales related to our internet services segment decreased by 6.3% from RMB2.1 billion in the first quarter of 2022 to RMB1.9 billion in the first quarter of 2023, primarily due to the decreased cost from advertising business.

Others

Cost of sales related to our others segment decreased by 21.3% from RMB0.9 billion in the first quarter of 2022 to RMB0.7 billion in the first quarter of 2023, primarily due to the decreased cost related to the sales of buildings.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 8.8% from RMB12.7 billion in the first quarter of 2022 to RMB11.6 billion in the first quarter of 2023.

The gross profit margin from our smartphones segment increased from 9.9% in the first quarter of 2022 to 11.2% in the first quarter of 2023, mainly due to the decreased price of key components, such as memory and display panels, as well as the improved product mix.

The gross profit margin from our IoT and lifestyle products segment increased from 15.6% in the first quarter of 2022 to 15.7% in the first quarter of 2023, primarily due to the improvement in gross profit margin of smart large home appliances, partially offset by the decreased gross profit margin of certain lifestyle products in the overseas markets.

The gross profit margin from our internet services segment increased from 70.8% in the first quarter of 2022 to 72.3% in the first quarter of 2023, mainly due to the increased gross profit margin from our advertising business and gaming business.

As a result of the foregoing, our gross profit margin increased from 17.3% in the first quarter of 2022 to 19.5% in the first quarter of 2023.

Research and Development Expenses

Our research and development expenses increased by 17.7% from RMB3.5 billion in the first quarter of 2022 to RMB4.1 billion in the first quarter of 2023, primarily due to the increase in compensation for research and development personnel.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 21.9% from RMB5.3 billion in the first quarter of 2022 to RMB4.1 billion in the first quarter of 2023, primarily due to the decrease in packaging and transportation expenses and promotion and advertising expenses.

Packaging and transportation expenses decreased by 51.1% from RMB1.4 billion in the first quarter of 2022 to RMB0.7 billion in the first quarter of 2023, primarily due to the decrease in overseas logistics expenses. Promotion and advertising expenses decreased by 24.4% from RMB1.7 billion in the first quarter of 2022 to RMB1.3 billion in the first quarter of 2023, primarily due to the decrease in marketing expenses.

Administrative Expenses

Our administrative expenses decreased by 8.8% from RMB1.2 billion in the first quarter of 2022 to RMB1.1 billion in the first quarter of 2023, primarily due to the decrease in compensation for administrative personnel and professional service fees.

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

Our fair value changes on investments measured at fair value through profit or loss changed from a loss of RMB3.6 billion in the first quarter of 2022 to a gain of RMB3.5 billion in the first quarter of 2023, primarily due to the fair value gain of listed equity investments in the first quarter of 2023.

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

Our share of net losses of investments accounted for using the equity method decreased by 33.9% from RMB201.3 million in the first quarter of 2022 to RMB133.1 million in the first quarter of 2023, primarily due to the reclassification of iQIYI, Inc. (“iQIYI”, Nasdaq: IQ) from the investments accounted for using the equity method to the investments measured at fair value through profit or loss in the fourth quarter of 2022.

Other Income

Our other income remained stable at RMB0.2 billion in the first quarter of 2023 compared to the first quarter of 2022.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from a net loss of RMB39.1 million in the first quarter of 2022 to a net gain of RMB176.0 million in the first quarter of 2023, primarily due to the gains on disposal from our investee companies and foreign exchange gain in the first quarter of 2023.

Finance (Costs)/Income, Net

Our net finance (costs)/income changed from a net income of RMB0.5 billion in the first quarter of 2022 to a net cost of RMB0.4 billion in the first quarter of 2023, primarily due to the increase in change of value of financial liabilities to fund investors, partially offset by the increased interest income due to the increase of deposit interest rate.

Income Tax Expenses

Our income tax expenses increased by 994.5% from RMB0.1 billion in the first quarter of 2022 to RMB1.3 billion in the first quarter of 2023, primarily due to the increase of operating profit in the first quarter of 2023.

Profit/(Loss) for the Period

As a result of the foregoing, we had a profit of RMB4.2 billion in the first quarter of 2023, compared with a loss of RMB0.5 billion in the first quarter of 2022.

Adjusted Net Profit

Our adjusted net profit increased by 13.1% from RMB2.9 billion in the first quarter of 2022 to RMB3.2 billion in the first quarter of 2023.

First Quarter of 2023 Compared with Fourth Quarter of 2022

The following table sets forth the comparative figures for the first quarter of 2023 and the fourth quarter of 2022:

	Unaudited	
	Three months ended	
	March 31,	December 31,
	2023	2022
	(RMB in millions)	
Revenue	59,477.1	66,047.4
Cost of sales	(47,885.6)	(54,669.9)
Gross profit	11,591.5	11,377.5
Research and development expenses	(4,113.3)	(4,700.4)
Selling and marketing expenses	(4,103.8)	(5,852.4)
Administrative expenses	(1,135.2)	(1,298.5)
Fair value changes on investments measured at fair value through profit or loss	3,453.3	3,765.5
Share of net (losses)/profits of investments accounted for using the equity method	(133.1)	3.6
Other income	164.8	588.7
Other gains/(losses), net	176.0	(528.3)
Operating profit	5,900.2	3,355.7
Finance (costs)/income, net	(429.5)	448.0
Profit before income tax	5,470.7	3,803.7
Income tax expenses	(1,254.6)	(662.0)
Profit for the period	4,216.1	3,141.7
Non-IFRS measure: Adjusted Net Profit	3,233.3	1,460.9

Revenue

Revenue decreased by 9.9% to RMB59.5 billion in the first quarter of 2023 from RMB66.0 billion in the fourth quarter of 2022. The following table sets forth our revenue by line of business in the first quarter of 2023 and the fourth quarter of 2022:

	Unaudited			
	Three months ended			
	March 31, 2023		December 31, 2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	34,984.7	58.8%	36,672.1	55.5%
IoT and lifestyle products	16,833.8	28.3%	21,447.3	32.5%
Internet services	7,028.1	11.8%	7,171.3	10.9%
Others	630.5	1.1%	756.7	1.1%
Total revenue	<u>59,477.1</u>	<u>100.0%</u>	<u>66,047.4</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 4.6% from RMB36.7 billion in the fourth quarter of 2022 to RMB35.0 billion in the first quarter of 2023, primarily due to the decrease in our smartphone shipments, partially offset by the increase in our smartphone ASP. Our smartphone shipments decreased by 7.1% from 32.7 million in the fourth quarter of 2022 to 30.4 million in the first quarter of 2023, primarily due to the global smartphone market remained weak, marking the lowest first quarter shipment level seen since 2014. The ASP of our smartphones was RMB1,151.6 per unit in the first quarter of 2023, compared with RMB1,121.0 per unit in the fourth quarter of 2022. The increase in ASP was primarily due to the increased ASP in mainland China with the contribution from our premium smartphone shipments in the first quarter of 2023, partially offset by the enhanced efforts to clear our inventories in overseas market.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment decreased by 21.5% from RMB21.4 billion in the fourth quarter of 2022 to RMB16.8 billion in the first quarter of 2023, primarily due to the decrease in revenue from smart TVs and laptops and certain lifestyle products.

Revenue from smart TVs and laptops decreased by 27.6% from RMB6.5 billion in the fourth quarter of 2022 to RMB4.7 billion in the first quarter of 2023, mainly due to the decrease in both shipments and ASP of smart TVs and laptops.

The decreased sales in certain lifestyle products was due to less promotional activities globally in the first quarter of 2023.

Internet services

Revenue from our internet services segment decreased by 2.0% from RMB7.2 billion in the fourth quarter of 2022 to RMB7.0 billion in the first quarter of 2023, primarily due to the decrease in revenue from our advertising business and fintech business, partially offset by the increased revenue from gaming business.

Others

Other revenue decreased by 16.7% from RMB0.8 billion in the fourth quarter of 2022 to RMB0.6 billion in the first quarter of 2023, primarily due to the decrease in revenue from the sales of materials.

Cost of Sales

Our cost of sales decreased by 12.4% from RMB54.7 billion in the fourth quarter of 2022 to RMB47.9 billion in the first quarter of 2023. The following table sets forth our cost of sales by line of business in the first quarter of 2023 and the fourth quarter of 2022.

	Unaudited			
	Three months ended			
	March 31, 2023		December 31, 2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	31,051.7	52.2%	33,672.2	51.0%
IoT and lifestyle products	14,187.1	23.9%	18,389.0	27.8%
Internet services	1,948.4	3.3%	2,040.3	3.1%
Others	698.4	1.1%	568.4	0.9%
	<hr/>	<hr/>	<hr/>	<hr/>
Total cost of sales	47,855.6	80.5%	54,669.9	82.8%

Smartphones

Cost of sales related to our smartphones segment decreased by 7.8% from RMB33.7 billion in the fourth quarter of 2022 to RMB31.1 billion in the first quarter of 2023, due to the decreased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment decreased by 22.9% from RMB18.4 billion in the fourth quarter of 2022 to RMB14.2 billion in the first quarter of 2023, primarily due to the decreased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 4.5% from RMB2.0 billion in the fourth quarter of 2022 to RMB1.9 billion in the first quarter of 2023, primarily due to the decrease in cost from our advertising business and fintech business, partially offset by the increase in cost from our gaming business.

Others

Cost of sales related to our others segment increased by 22.9% from RMB0.6 billion in the fourth quarter of 2022 to RMB0.7 billion in the first quarter of 2023.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 1.9% from RMB11.4 billion in the fourth quarter of 2022 to RMB11.6 billion in the first quarter of 2023. Our gross profit margin increased from 17.2% in the fourth quarter of 2022 to 19.5% in the first quarter of 2023.

The gross profit margin from our smartphones segment increased from 8.2% in the fourth quarter of 2022 to 11.2% in the first quarter of 2023, primarily due to the decreased warranty provision in the first quarter of 2023, which resulted from an additional one-time cost of approximately RMB0.7 billion in the fourth quarter of 2022, as well as the improved product mix.

The gross profit margin from our IoT and lifestyle products segment increased from 14.3% in the fourth quarter of 2022 to 15.7% in the first quarter of 2023, mainly attributable to the increased gross profit margin of smart TVs and laptops, as well as that of certain lifestyle products.

The gross profit margin from our internet services segment increased from 71.5% in the fourth quarter of 2022 to 72.3% in the first quarter of 2023, mainly due to the increased gross profit margin of our gaming business, partially offset by the lower revenue contribution from advertising business with higher gross profit margin.

Research and Development Expenses

Our research and development expenses decreased by 12.5% from RMB4.7 billion in the fourth quarter of 2022 to RMB4.1 billion in the first quarter of 2023, mainly in line with progress of certain research and development programs.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 29.9% from RMB5.9 billion in the fourth quarter of 2022 to RMB4.1 billion in the first quarter of 2023, primarily due to the decrease in promotion and advertising expenses and packaging and transportation expenses.

Promotion and advertising expenses decreased by 45.7% from RMB2.3 billion in the fourth quarter of 2022 to RMB1.3 billion in the first quarter of 2023, primarily due to less promotional events of our products and brand marketing during this quarter. Packaging and transportation expenses decreased mainly due to less overseas logistics expenses during this quarter.

Administrative Expenses

Our administrative expenses decreased by 12.6% from RMB1.3 billion in the fourth quarter of 2022 to RMB1.1 billion in the first quarter of 2023, primarily due to the decrease in professional service fees and 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 decreased by 8.3% from a gain of RMB3.8 billion in the fourth quarter of 2022 to a gain of RMB3.5 billion in the first quarter of 2023, primarily due to the decreased fair value gains of preferred shares investments, partially offset by the increased fair value gain of listed equity investments in the first quarter of 2023.

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 RMB3.6 million in the fourth quarter of 2022 to net losses of RMB133.1 million in the first quarter of 2023, primarily due to the share of losses of our certain investees.

Other Income

Our other income decreased by 72.0% from RMB0.6 billion in the fourth quarter of 2022 to RMB0.2 billion in the first quarter of 2023, primarily due to the decrease of government grants.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from a net loss of RMB528.3 million in the fourth quarter of 2022 to a net gain of RMB176.0 million in the first quarter of 2023, primarily due to the gains on disposal from our investee companies and less impairment of listed investments accounted for using the equity method and foreign exchange gain in the first quarter of 2023.

Finance (Costs)/Income, Net

Our net finance (costs)/income changed from a net income of RMB0.4 billion in the fourth quarter of 2022 to a net cost of RMB0.4 billion in the first quarter of 2023, primarily due to the increase in change of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 89.5% from RMB0.7 billion in the fourth quarter of 2022 to RMB1.3 billion in the first quarter of 2023, primarily due to the increase of operating profit in the first quarter of 2023.

Profit for the Period

As a result of the foregoing, we had a profit of RMB4.2 billion in the first quarter of 2023, compared with a profit of RMB3.1 billion in the fourth quarter of 2022.

Adjusted Net Profit

Our adjusted net profit increased by 121.3% from RMB1.5 billion in the fourth quarter of 2022 to RMB3.2 billion in the first quarter of 2023.

Non-IFRS Measure: Adjusted Net Profit

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

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

The following tables set forth reconciliations of the Group's non-IFRS measures for the first quarters of 2023 and 2022, respectively, and the fourth quarter of 2022 to the nearest measures prepared in accordance with IFRS.

	Unaudited Three Months Ended March 31, 2023						
	Adjustments						
			Net fair value	Amortization of	Changes		
	As reported	Share-based	changes on	intangible assets	of value	Income tax	Non-IFRS
		compensation	investments ⁽¹⁾	resulting from	of financial	effects ⁽⁴⁾	
			(RMB in thousand, unless specified)	acquisitions ⁽²⁾	liabilities to		
				fund investors ⁽³⁾	fund investors ⁽³⁾		
Profit for the period	4,216,138	863,354	(3,025,510)	36,002	860,593	282,680	3,233,257
Net margin	7.1%						5.4%
Unaudited Three Months Ended March 31, 2022							
Adjustments							
			Net fair value	Amortization of	Changes of value		
	As reported	Share-based	changes on	intangible assets	of financial	Income tax	Non-IFRS
		compensation	investments ⁽¹⁾	resulting from	liabilities to fund	effects ⁽⁴⁾	
			(RMB in thousand, unless specified)	acquisitions ⁽²⁾	investors ⁽³⁾		
(Loss)/profit for the period	(530,554)	402,287	3,833,506	36,081	(465,665)	(417,065)	2,858,590
Net margin	-0.7%						3.9%
Unaudited Three Months Ended December 31, 2022							
Adjustments							
			Net fair value	Amortization of	Changes of value		
	As reported	Share-based	changes on	intangible assets	of financial	Income tax	Non-IFRS
		compensation	investments ⁽¹⁾	resulting from	liabilities to fund	effects ⁽⁴⁾	
			(RMB in thousand, unless specified)	acquisitions ⁽²⁾	investors ⁽³⁾		
Profit for the period	3,141,667	589,109	(2,166,410)	36,028	(155,061)	15,569	1,460,902
Net margin	4.8%						2.2%

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.

Liquidity, Financial Resources and Gearing

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

Other than the funds raised through our Global Offering (as defined in the prospectus of the Company dated June 25, 2018 (the “**Prospectus**”)) in July 2018, the 2020 Placing and Subscription and the issuance of debt securities as described in “Issuance of Debt Securities” below, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB26.2 billion and RMB27.6 billion as of March 31, 2023 and December 31, 2022, respectively.

Note:

The cash resources which the Group considered in cash management include but are not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss, short-term investments measured at amortized cost and long-term bank deposits. As of March 31, 2023, the aggregate amount of cash resources of the Group was RMB94.6 billion.

Issuance of Debt Securities

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

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

As at March 31, 2023, no 2027 Bonds had been converted into new shares.

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

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	March 31,	December 31,
	2023	2022
	(in millions of RMB)	
Net cash generated from operating activities ⁽¹⁾	1,218.8	4,112.2
Net cash used in investing activities	(1,622.2)	(708.1)
Net cash used in financing activities ⁽¹⁾	(866.8)	(3,617.0)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,270.2)	(212.9)
	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the period	27,607.3	28,071.1
Effects of exchange rate changes on cash and cash equivalents	(156.1)	(250.9)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>26,181.0</u>	<u>27,607.3</u>

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 payables related to the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar bank, the net cash used in operating activities was RMB0.7 billion in the first quarter of 2023 and the net cash generated from operating activities was RMB5.1 billion in the fourth quarter of 2022, respectively. Excluding the change of borrowings for the fintech business, the net cash used in financing activities was RMB1.4 billion in the first quarter of 2023 and the net cash used in financing activities was RMB3.0 billion in the fourth quarter of 2022, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Generated From Operating Activities

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

In the first quarter of 2023, net cash generated from our operating activities amounted to RMB1.2 billion, representing cash generated from operations of RMB1.9 billion minus income tax paid of RMB0.7 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB5.5 billion, mainly adjusted by an decrease in inventories of RMB6.0 billion and an decrease in prepayments and other receivables of RMB2.4 billion, partially offset by an decrease in trade payables of RMB11.1 billion and an decrease in other payables and accruals of RMB1.3 billion.

Net Cash Used In Investing Activities

For the first quarter of 2023, our net cash used in investing activities was RMB1.6 billion, which was primarily attributed to the net changes of short-term investments measured at amortised cost of RMB1.0 billion and the net changes of short-term bank deposits of RMB0.7 billion.

Net Cash Used In Financing Activities

For the first quarter of 2023, our net cash used in financing activities was RMB0.9 billion, which was primarily attributed to the distribution to fund investors of RMB0.3 billion, payment of lease liabilities of RMB0.3 billion and payment of finance expenses of RMB0.3 billion.

Borrowings

As of December 31, 2022 and March 31, 2023, we had total borrowings of RMB23.6 billion and RMB22.5 billion, respectively.

Capital Expenditure

	Three months ended	
	March 31, 2023	December 31, 2022
	(in millions of RMB)	
Capital expenditures	1,556.4	1,379.4
Placement of long-term investments ⁽¹⁾	1,028.5	689.2
Total	<u>2,584.9</u>	<u>2,068.6</u>

Note:

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

Off-Balance Sheet Commitments and Arrangements

As of March 31, 2023, except for financial guarantee contracts, we had not entered into any off-balance sheet commitments or arrangements.

Future Plans for Material Investments and Capital Assets

As of March 31, 2023, we did not have other plans for material investments and capital assets.

Investments Held

As of March 31, 2023, we had invested in more than 420 companies with an aggregate book value of RMB66.7 billion, an increase of 12.7% year-over-year. In the first quarter of 2023, we recorded a net gain on disposal of investments (after tax) of RMB0.2 billion. The total amount of these investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on March 31, 2023 (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 RMB70.1 billion as of March 31, 2023.

The Group did not make or hold any significant investments (including any investment in an investee company with a value of 5 percent or more of the Group's total assets as of March 31, 2023) during the three months ended March 31, 2023.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the three months ended March 31, 2023, we did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As of March 31, 2023, we had 32,409 full-time employees, 30,020 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. As of March 31, 2023, our research and development personnel, totaling 16,458 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of March 31, 2023, 12,073 employees held share-based awards. The total remuneration expenses, including share-based compensation expenses, in the first quarter of 2023 were RMB4.5 billion, representing an increase of 4.1% from the fourth quarter of 2022.

Foreign Exchange Risk

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

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

Pledge of Assets

As of March 31, 2023, we had a restricted deposit of RMB4.2 billion, compared with RMB4.0 billion as of December 31, 2022. We also had pledged certain construction in progress and land use right for borrowings.

Contingent Liabilities

We did not have any material contingent liabilities as of March 31, 2023 and December 31, 2022. Further details of the contingencies are set out in Note 9 to the financial information.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended March 31, 2023

(Expressed in Renminbi (“RMB”))

	Note	Unaudited Three months ended March 31,	
		2023	2022
		RMB'000	RMB'000
Revenue	2	59,477,134	73,351,502
Cost of sales	2, 3	<u>(47,885,567)</u>	<u>(60,641,756)</u>
Gross profit		11,591,567	12,709,746
Research and development expenses	3	(4,113,360)	(3,494,539)
Selling and marketing expenses	3	(4,103,864)	(5,256,184)
Administrative expenses	3	(1,135,173)	(1,244,573)
Fair value changes on investments measured at fair value through profit or loss	4	3,453,259	(3,550,255)
Share of net losses of investments accounted for using the equity method		(133,081)	(201,332)
Other income		164,834	164,927
Other gains/(losses), net		<u>176,027</u>	<u>(39,053)</u>
Operating profit/(loss)		5,900,209	(911,263)
Finance income		678,150	265,702
Finance costs		<u>(1,107,646)</u>	<u>229,631</u>
Profit/(loss) before income tax		5,470,713	(415,930)
Income tax expenses		<u>(1,254,575)</u>	<u>(114,624)</u>
Profit/(loss) for the period		<u>4,216,138</u>	<u>(530,554)</u>
Attributable to:			
— Owners of the Company		4,203,839	(587,600)
— Non-controlling interests		<u>12,299</u>	<u>57,046</u>
		<u>4,216,138</u>	<u>(530,554)</u>
Earnings/(loss) per share (expressed in RMB per share):			
Basic		<u>0.17</u>	<u>(0.02)</u>
Diluted		<u>0.17</u>	<u>(0.02)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the three months ended March 31, 2023**(Expressed in RMB)*

	Unaudited	
	Three months ended	
	March 31,	
	2023	2022
	RMB'000	RMB'000
Profit/(loss) for the period	4,216,138	(530,554)
Other comprehensive loss:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Share of other comprehensive loss of investments accounted for using the equity method	(23,573)	(21,096)
Transfer of share of other comprehensive loss to profit or loss upon disposal of investments accounted for using equity method	7	—
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	(7,199)	(3,175)
Currency translation differences	(19,345)	(62,344)
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Currency translation differences	(567,490)	(176,408)
Other comprehensive loss for the period, net of tax	(617,600)	(263,023)
Total comprehensive income/(loss) for the period	3,598,538	(793,577)
Attributable to:		
— Owners of the Company	3,589,912	(848,799)
— Non-controlling interests	8,626	55,222
	3,598,538	(793,577)

CONDENSED CONSOLIDATED BALANCE SHEET

As of March 31, 2023

(Expressed in RMB)

		Unaudited As of March 31, 2023 RMB'000	Audited As of December 31, 2022 RMB'000
Assets			
Non-current assets			
Property and equipment		9,722,141	9,138,221
Intangible assets		4,291,536	4,629,676
Investments accounted for using the equity method		7,692,981	7,932,192
Long-term investments measured at fair value through profit or loss	4	58,991,776	55,979,974
Deferred income tax assets		2,347,871	2,278,175
Long-term bank deposits		13,068,812	16,788,346
Long-term investments measured at amortized cost	4	402,784	405,371
Other non-current assets		15,877,018	15,940,461
		<u>112,394,919</u>	<u>113,092,416</u>
Current assets			
Inventories	6	42,595,212	50,437,891
Trade receivables	5	11,140,264	11,795,074
Loan receivables		6,364,918	7,829,563
Prepayments and other receivables		15,952,534	18,578,491
Bills receivables measured at fair value through other comprehensive income		283,100	40,003
Short-term investments measured at fair value through other comprehensive income	4	515,917	449,109
Short-term investments measured at amortized cost	4	1,002,508	—
Short-term investments measured at fair value through profit or loss	4	9,477,034	9,845,910
Short-term bank deposits		34,066,141	29,874,707
Restricted cash		4,223,933	3,956,786
Cash and cash equivalents		26,180,952	27,607,261
		<u>151,802,513</u>	<u>160,414,795</u>
Total assets		<u><u>264,197,432</u></u>	<u><u>273,507,211</u></u>

	Note	Unaudited As of March 31, 2023 RMB'000	Audited As of December 31, 2022 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		407	406
Reserves		<u>148,101,093</u>	<u>143,658,052</u>
		<u>148,101,500</u>	<u>143,658,458</u>
Non-controlling interests		<u>272,589</u>	<u>264,602</u>
Total equity		<u><u>148,374,089</u></u>	<u><u>143,923,060</u></u>
Liabilities			
Non-current liabilities			
Borrowings	7	20,880,846	21,493,261
Deferred income tax liabilities		1,248,149	983,256
Warranty provision		836,313	945,270
Other non-current liabilities		<u>16,848,370</u>	<u>16,534,831</u>
		<u>39,813,678</u>	<u>39,956,618</u>
Current liabilities			
Trade payables	8	41,584,877	53,093,543
Other payables and accruals		17,756,940	18,440,716
Advance from customers		8,357,078	9,587,959
Borrowings	7	1,583,363	2,150,741
Income tax liabilities		1,673,060	1,384,133
Warranty provision		<u>5,054,347</u>	<u>4,970,441</u>
		<u>76,009,665</u>	<u>89,627,533</u>
Total liabilities		<u><u>115,823,343</u></u>	<u><u>129,584,151</u></u>
Total equity and liabilities		<u><u>264,197,432</u></u>	<u><u>273,507,211</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2023

(Expressed in RMB)

	Unaudited	
	Three months ended	
	March 31,	
	2023	2022
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	1,218,761	(8,680,606)
Net cash (used in)/generated from investing activities	(1,622,151)	17,569,436
Net cash (used in)/generated from financing activities	<u>(866,848)</u>	<u>2,351,588</u>
Net (decrease)/increase in cash and cash equivalents	(1,270,238)	11,240,418
Cash and cash equivalents at the beginning of the period	27,607,261	23,511,579
Effects of exchange rate changes on cash and cash equivalents	<u>(156,071)</u>	<u>(37,833)</u>
Cash and cash equivalents at end of the period	<u>26,180,952</u>	<u>34,714,164</u>

1 Basis of preparation

The condensed consolidated interim financial information comprises the condensed consolidated balance sheet as of March 31, 2023, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three-month period then ended, and notes, comprising significant accounting policies and other explanatory information (the “**Interim Financial Information**”). The Interim Financial Information is presented in RMB, unless otherwise stated.

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

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. The Interim Financial Information should be read in conjunction with the annual audited financial statements of the Group for the year ended December 31, 2022 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) by the Group as set out in the 2022 annual report of the Company dated March 24, 2023 (the “**2022 Financial Statements**”), and any public announcement made by the Company during the current period and up to date of approval of this unaudited interim condensed consolidated financial information.

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2022, as described in the 2022 Financial Statements, except for the adoption of certain amended standards which has had no significant impact on the results and the financial position of the Group.

2 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. There were no material inter-segment sales during the three months ended March 31, 2023 and 2022. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

The segment results for the three months ended March 31, 2023 and 2022 are as follows:

	Three months ended March 31, 2023				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
(Unaudited)					
Segment revenues	34,984,746	16,833,782	7,028,148	630,458	59,477,134
Cost of sales	<u>(31,051,729)</u>	<u>(14,187,118)</u>	<u>(1,948,401)</u>	<u>(698,319)</u>	<u>(47,885,567)</u>
Gross profit/(loss)	<u>3,933,017</u>	<u>2,646,664</u>	<u>5,079,747</u>	<u>(67,861)</u>	<u>11,591,567</u>

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

For the three months ended March 31, 2023 and 2022, the geographical information on the total revenues is as follows:

	Three months ended March 31,			
	2023		2022	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Mainland China	32,491,984	54.6	35,889,645	48.9
Rest of the world (Note (a))	26,985,150	45.4	37,461,857	51.1
	<u>59,477,134</u>		<u>73,351,502</u>	

Note:

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

3 Expenses by nature

	Three months ended March 31,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of inventories sold and royalty fees	42,760,964	55,276,704
Provision for impairment of inventories	1,814,492	1,531,196
Employee benefit expenses	4,500,457	3,895,114
Depreciation of property and equipment, right-of-use assets and investment properties	563,606	544,464
Amortization of intangible assets	361,473	333,969
Promotion and advertising expenses	1,266,873	1,674,737
Content fees to game developers and video providers	864,497	799,881
Credit loss allowance	58,957	53,169
Consultancy and professional service fees	282,856	332,352
Cloud service, bandwidth and server custody fees	550,549	591,874
Warranty expenses	863,431	1,091,711

4 Investments

	As of March 31, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000 (Audited)
Current assets		
Short-term investments measured at		
— Amortized cost	1,002,508	—
— Fair value through other comprehensive income	515,917	449,109
— Fair value through profit or loss	9,477,034	9,845,910
	<u>10,995,459</u>	<u>10,295,019</u>
Non-current assets		
Long-term investments measured at amortized cost	402,784	405,371
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments	21,351,690	18,726,499
— Preferred shares investments	31,083,856	31,053,080
— Other investments	6,556,230	6,200,395
	<u>59,394,560</u>	<u>56,385,345</u>

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

	Three months ended March 31,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Fair value changes on ordinary shares investments	3,216,333	(3,690,754)
Fair value changes on preferred shares investments	102,568	11,810
Fair value changes on short-term investments measured at fair value through profit or loss	56,014	120,596
Fair value changes on other investments	78,344	8,093
	<u>3,453,259</u>	<u>(3,550,255)</u>

5 Trade receivables

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

	As of March 31, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000 (Audited)
Trade receivables		
Up to 3 months	8,724,085	9,325,061
3 to 6 months	998,616	1,946,964
6 months to 1 year	1,341,369	469,147
1 to 2 years	158,666	150,685
Over 2 years	123,823	108,557
	<u>11,346,559</u>	12,000,414
Less: credit loss allowance	<u>(206,295)</u>	<u>(205,340)</u>
	<u><u>11,140,264</u></u>	<u><u>11,795,074</u></u>

6 Inventories

	As of March 31, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000 (Audited)
Raw materials	16,895,510	17,122,900
Finished goods	22,048,175	28,650,303
Work in progress	2,424,351	3,068,508
Spare parts	4,287,543	4,410,902
Others	612,520	655,638
	<u>46,268,099</u>	53,908,251
Less: provision for impairment (Note(a))	<u>(3,672,887)</u>	<u>(3,470,360)</u>
	<u><u>42,595,212</u></u>	<u><u>50,437,891</u></u>

Note:

- (a) During three months ended March 31, 2023, the Group incurred inventory impairment provision approximately RMB1,814,492,000 (2022: RMB1,531,196,000) and transferred out of such provision upon the sales of inventories approximately RMB1,611,965,000 (2022: RMB1,123,303,000).

7 Borrowings

	As of March 31, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000 (Audited)
Included in non-current liabilities		
Secured borrowings	39,943	102,325
Unsecured borrowings	16,115,003	16,656,195
Convertible bonds	4,725,900	4,734,741
	<u>20,880,846</u>	<u>21,493,261</u>
Included in current liabilities		
Secured borrowings	—	3,283
Unsecured borrowings	1,583,363	2,147,458
	<u>1,583,363</u>	<u>2,150,741</u>

8 Trade payables

Trade payables primarily include payables for inventories. As of March 31, 2023 and December 31, 2022, the carrying amounts of trade payables were primarily denominated in RMB, US\$ and India Rupees.

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

	As of March 31, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000 (Audited)
Up to 3 months	36,158,669	47,999,500
3 to 6 months	2,118,640	1,820,555
6 months to 1 year	1,955,277	2,172,721
1 to 2 years	1,019,405	855,854
Over 2 years	332,886	244,913
	<u>41,584,877</u>	<u>53,093,543</u>

9 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 Technology India Private Limited (“**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 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, requesting certain of its bank accounts 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 March 31, 2023 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.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the three months ended March 31, 2023 and up to the date of this announcement.

Compliance with the Corporate Governance Code

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

Save for code provision C.2.1 of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, the Company has complied with all the code provisions set out in the CG Code during the three months ended March 31, 2023.

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

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the unaudited interim results of the Group for the three months ended March 31, 2023. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, PricewaterhouseCoopers.

Material Litigation

As of March 31, 2023, the Company was not involved in any material litigation or arbitration nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

Events after March 31, 2023

Save as disclosed in this announcement, there have been no other significant events that might affect the Group after March 31, 2023 and up to the date of this announcement.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, May 24, 2023

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