Stock Code: 1810

XIAOMI CORPORATION

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

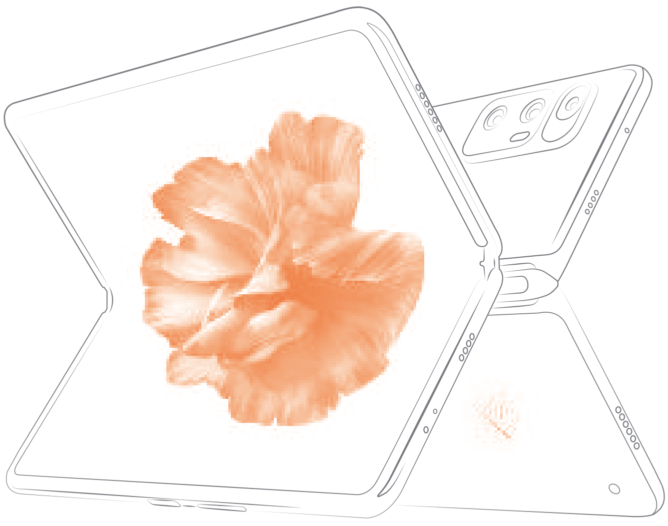
2020 ANNUAL REPORT

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.

Shareholders who have chosen or are deemed to have consented to receive the corporate communications using electronic means and who have difficulty in receiving or gaining access to the annual report posted on the Company's website will promptly upon request be sent the annual report in printed form free of charge.

Shareholders may at any time choose to change their choice of means of receipt (in printed form or by electronic means through the Company's website) and language (in English only, in Chinese only or in both Chinese and English) of all future corporate communications from the Company by sending reasonable prior notice in writing by post to the Hong Kong Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by email at xiaomi.ecom@computershare.com.hk.

CONTENTS



We relentlessly

build amazing products

with honest prices

to let everyone in the world

enjoy a better life through

innovative technology

OPEN LETTER FROM OUR CHAIRMAN

Dear valued investors and friends,

It is my great honor to report another set of stellar results in what has been an extraordinary 2020. We recently announced our 2020 annual financial results, in which we reported record achievements, but beyond that, I am also excited to share with you our plans for the next decade and the growth prospects that these plans will bring.

Our success comes from placing our users first

In 2020, Xiaomi posted solid performance amid the pandemic and global economic uncertainty, with revenue and adjusted net profit growing 19.4% and 12.8% year-over-year to RMB245.9 billion and RMB13.0 billion, respectively. Many of our business and financial metrics achieved all-time highs while we outpaced our global peers in terms of smartphone shipment growth and maintained the leading position in mainland China's smart TV market.

We owe such growth to the support and recognition from our global users. The year 2020 marks our ten-year anniversary, and during this year we systematically reviewed our entrepreneurial experience over the past ten years. We concluded that the core of our success has been built on our respect for our users and putting our users' interests first.

This conclusion is validated through our commitment to relentlessly build amazing products with honest prices. To achieve this, we had in 2018 promised to our users that our net profit margin for our hardware business will never exceed 5%.

Just like in the past two years, I am proud to report that we have delivered on our promise, and the net profit margin for our hardware business remained under 1%. Our sincere desire to be friends with our users continues to guide us.

While we continue to improve the competitiveness of our products and services, we have also been building a better user community and facilitating closer communication with our users. This will not only strengthen the closed-loop ecosystem of user and internet traffic, but it will also guide the evolution of our products and services over time. This is the most important priority for us, and will provide the foundation for our developments over the next decade.

We have established a solid foundation for the next decade

We enter the new decade with great confidence and a clear strategy, and we have already established a strong foundation to achieve this strategy.

Since 2016, we have been strengthening the foundation of our business as we significantly improved our product capabilities while opening and establishing a firm foothold in the premium smartphone market. In the meantime, we have launched our comprehensive brand management system over the past two years, and have been listed among BrandZ's Top 100 Most Valuable Global Brands for two consecutive years. Our dual-brand strategy has allowed us to achieve tremendous success in the smartphone business.

After 7 years of expansion in the overseas markets, our footprint now reaches 100 countries and regions globally. Our smartphone shipments ranked top three globally in the fourth quarter in 2020, with leading positions in key markets, laying a solid foundation for future growth. In 2020, half of our revenue came from overseas markets, making us a truly global company.

We have been experimenting with the omni-channel "new retail" model in mainland China since 2016, and after 5 years of testing, we are beginning to establish a new model which is widely accepted, paving the way for us to expand our offline channel in mainland China. In 2021, we plan to expand Mi Homes to all counties in mainland China. In addition, we have also made a breakthrough in the carrier market in Europe, opening new pathways for us to gain further market share globally.

Since our IPO in 2018, we have established a robust corporate governance structure and a capable and dynamic management team. During this period, in addition to recruiting a number of young and experienced executives from the outside, we have also promoted young group executives and general managers internally. We believe that this dynamic team will provide strong, visionary leadership for our growth over the next decade.

After more than four years of planning and validation, we unveiled our core strategy of "Smartphone × AIoT" for the next decade in August 2020. Under this strategy, we established that smartphones will be the cornerstone of our business while our AIoT platform will build a smart living ecosystem around smartphones, further amplifying Xiaomi's value. As smart connectivity becomes more integrated into people's lives, our core strategy of "Smartphone × AIoT" will further strengthen the multiplier effect and help us penetrate more scenarios, acquire more users and deepen the moats of our business model. This will help us achieve our mission of letting everyone in the world enjoy a better life through innovative technology and also make Xiaomi a true leader in smart living in the future.

Meanwhile, we will adhere to the three guiding business principles: "never cease to explore and innovate", "continue to offer products with the best price-to-performance ratio", and "always make the coolest products."

OPEN LETTER FROM OUR CHAIRMAN

Over the past three years, we have made significant progress in key technologies such as imaging, wired/wireless charging, artificial intelligence and IoT platforms, allowing us to establish leading industry positions globally. This is attributable to our strong and sustained investment in research and development. In 2020, our research and development expenses were close to RMB10 billion, and we expect this to increase by more than 30% to over RMB13 billion in 2021. We will further expand our research and development team by recruiting over 5,000 engineers this year.

Despite encountering many unexpected difficulties along the way, Xiaomi has reached new heights through our continuous exploration and development over the past few years, which built a strong foundation and revolutionized our management capabilities. Xiaomi is stronger than ever as we stride into the future with confidence.

Embracing global uncertainties through continuous improvements

Over this past year, we have witnessed tremendous uncertainty and the impact this has brought to the world. In the years to come, we expert such uncertainty will be the new normal.

Such uncertainty presents us not only with challenges but also with great opportunities. For example, the expansion of the contactless economy promises to be a huge driver of growth in smart devices and communication services. The rebound in demand during the pandemic has contributed to our excellent performance in both mainland China and overseas, and we have received strong support from our upstream and downstream partners, users and Mi Fans. These have all reinforced our confidence in our future growth.

In 2021, we will continue to implement our core strategy of "Smartphone × AIoT." As we seek to achieve greater breakthroughs in the smartphone market, we will also systematically develop smart home solutions to provide users with a more complete, convenient and personalized living experience. At the same time, we have a series of ambitious long-term plans to drive Xiaomi's continuous evolution. In the coming days, you will witness the great changes they will bring.

As the saying goes, "Good timber does not grow with ease. The stronger the wind, the stronger the trees." In times of greater uncertainty and unpredictable challenges, the more we need to stay persistent with our dreams, to keep pace with the times, to stand by our users, to adjust, to adapt, to innovate, and to make advancements. These are the characteristics expected of an excellent company in these unique times.

We may not be able to change the uncertainty of our environment, but we can make the best of the situation through improving ourselves and encouraging one another to embrace and change such uncertainties for a better future. Those who continuously innovate and improve themselves, including Xiaomi, will eventually change the world and continuously give it hope.

Thank you for believing in us, investing in us, and joining us on our journey to let billions and billions of people around the world enjoy a better life through innovative technology. I look forward to continuously exploring and moving forward with you into the future.

Lei Jun
Chairman
March 24, 2021

CORPORATE INFORMATION

Board of Directors

Executive Directors

Lei Jun（雷軍）*(Chairman of the Board)*
Lin Bin（林斌）*(Vice Chairman of the Board)*
Chew Shou Zi （周受資）(resigned from the Board with effect from March 24, 2021)
Liu De (劉德) (appointed to the Board with effect from March 24, 2021)

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

Lin Steve （林冠男）(resigned with effect from February 26, 2021)
Chan Wing Ki （陳穎琪）(appointed with effect from February 26, 2021)
So Ka Man （蘇嘉敏）

Authorized Representatives

Lin Bin （林斌）
So Ka Man （蘇嘉敏）

Auditor

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest Entity Auditor

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

Level 54, Hopewell Centre
183 Queen's Road East
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,				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	**245,865,633**	205,838,682	174,915,425	114,624,742	68,434,161
Gross profit	**36,751,862**	28,554,033	22,191,939	15,154,205	7,249,355
Operating profit	**24,034,729**	11,760,217	1,196,472	12,215,467	3,785,064
Profit/(loss) before income tax	**21,633,432**	12,162,646	13,927,124	(41,829,352)	1,175,509
Profit/(loss) for the year	**20,312,710**	10,102,950	13,477,747	(43,889,115)	491,606
Profit/(loss) attributable to owners of the Company	**20,355,504**	10,044,164	13,553,886	(43,826,016)	553,250
Total comprehensive income/(loss) for the year	**17,949,889**	10,543,383	11,921,632	(35,994,749)	(6,307,155)
Total comprehensive income/(loss) attributable to owners of the Company	**17,986,452**	10,472,914	11,989,243	(35,922,124)	(6,254,475)
Non-IFRS Measure: Adjusted net profit	**13,006,363**	11,532,296	8,554,548	5,361,876	1,895,657

Condensed consolidated balance sheets

	As of December 31,				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Assets					
Non-current assets	**77,396,988**	46,090,121	39,215,389	28,731,300	20,129,283
Current assets	**176,282,835**	137,539,086	106,012,561	61,138,461	30,636,318
Total assets	**253,679,823**	183,629,207	145,227,950	89,869,761	50,765,601
Equity and liabilities					
Equity attributable to owners of the Company	**123,691,696**	81,330,574	71,322,985	(127,272,361)	(92,191,670)
Non-controlling interests	**321,819**	327,102	(72,856)	61,670	133,795
Total equity	**124,013,515**	81,657,676	71,250,129	(127,210,691)	(92,057,875)
Non-current liabilities	**21,739,380**	9,790,826	12,037,663	169,947,781	116,760,214
Current liabilities	**107,926,928**	92,180,705	61,940,158	47,132,671	26,063,262
Total liabilities	**129,666,308**	101,971,531	73,977,821	217,080,452	142,823,476
Total equity and liabilities	**253,679,823**	183,629,207	145,227,950	89,869,761	50,765,601

Year ended December 31, 2020

Revenue	Non-IFRS Measure: Adjusted net profit	MIUI MAU	Connected IoT devices
245.9 billion	13.0 billion	396.3[1] million	324.8[2] million units

Year-on-year growth rate

Revenue	Internet services revenue	Overseas revenue	MIUI MAU
19.4%	19.7%	34.1%	28.0%[1]

Note:

(1) MIUI MAU in December 2020

(2) Connected IoT devices as of December 31, 2020, excluding smartphones and laptops

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended December 31, 2020 to the shareholders.

Business Review and Outlook

OVERALL PERFORMANCE

SMARTPHONES

IoT AND LIFESTYLE PRODUCTS

INTERNET SERVICES

OVERSEAS MARKETS

STRATEGIC UPDATE

1. Overall performance

In 2020, despite the impact of the COVID-19 pandemic and an uncertain global economic environment, we remained focused on executing our business strategies and achieved solid growth for the year. Total revenue for the year reached RMB245.9 billion, representing an increase of 19.4% year-over-year; adjusted net profit for the year was RMB13.0 billion, representing an increase of 12.8% year-over-year. In the fourth quarter of 2020, our revenue amounted to RMB70.5 billion, representing an increase of 24.8% year-over-year; adjusted net profit was RMB3.2 billion, representing an increase of 36.7% year-over-year.

Our commitment to the core strategy of "Smartphone × AIoT" continued to underpin our solid performance. In 2020, our global smartphone shipments increased by 17.5% year-over-year to 146.4 million units. According to Canalys, Xiaomi's smartphone shipments increased by over 24 million units in 2020, the top gainer among all smartphone companies globally. In the fourth quarter of 2020, we maintained a top three position in global smartphone shipments with a market share of 12.1% and the highest year-over-year growth among the top five smartphone companies globally, according to Canalys. Driven by the strong growth of smartphone shipments, the global monthly active users ("**MAU**") of MIUI reached 396.3 million in December 2020, an increase of 28.0% year-over-year. At the same time, our global AIoT platform continues to grow. As of December 31, 2020, the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reached 324.8 million, representing an increase of 38.0% year-over-year. Our AI assistant (" 小愛同學 ") had 86.7 million MAU in December 2020, representing a year-over-year increase of 43.5%.

Our smartphone business grew significantly and we increased our market share in mainland China. According to Canalys, in the fourth quarter of 2020, our smartphone shipments in the mainland China market grew 51.9% year-over-year, representing the highest growth rate among the top five smartphone companies. Our smartphone shipment market share in mainland China rose from 9.2% in the fourth quarter of 2019 to 14.6% in the fourth quarter of 2020, according to Canalys.

We further solidified our position in the premium smartphone market. In 2020, we sold approximately 10 million premium smartphones globally with retail prices at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets. In December 2020, we unveiled our premium flagship *Mi 11,* which was well received by the market, with sales surpassing one million units in the first 21 days following its release.

As we continue to expand our overseas business, revenue from overseas markets amounted to RMB122.4 billion in 2020, representing a year-over-year increase of 34.1% and accounting for 49.8% of our total revenue. As of December 31, 2020, our products have been sold in more than 100 markets globally. According to Canalys, we ranked among the top five vendors in terms of smartphone shipments in 54 countries and regions globally in the fourth quarter of 2020.

In 2020, our global business recovered from the impact of the COVID-19 pandemic and maintained steady growth. Since the outbreak of COVID-19, Xiaomi collaborated closely with upstream and downstream business partners to accelerate the resumption of work and production. During the pandemic, our products and services helped people enrich their lives and stay connected, and demand for our products remained healthy. With the easing of lockdown restrictions in major markets during the second half of 2020, our business rebounded. We continued to execute our "Smartphone × AIoT" strategy, and our solid performance for the year demonstrates the resilience and competitiveness of our business model.

CHAIRMAN'S STATEMENT

2. Smartphones

In 2020, our smartphone business maintained solid growth momentum. Smartphone revenue amounted to RMB152.2 billion for the year, representing an increase of 24.6% year-over-year. In 2020, our global smartphone shipments totaled 146.4 million units, an increase of 17.5% year-over-year. In the fourth quarter of 2020, our smartphone revenue amounted to RMB42.6 billion, representing an increase of 38.4% year-over-year. In this quarter, our global smartphone shipments reached 42.3 million units, representing a year-over-year increase of 29.7%. According to Canalys, in the fourth quarter of 2020, we continued to rank 3rd globally in terms of smartphone shipments with a market share of 12.1%, and achieved the highest year-over-year growth among the top five smartphone companies globally. In 2020, our smartphone business grew significantly in mainland China. According to Canalys, in the fourth quarter of 2020, our smartphone shipments in mainland China market increased by 51.9% year-over-year, achieving the highest year-over-year growth among the top five smartphone companies. Our mainland China market share climbed to 14.6% in the fourth quarter of 2020 from 9.2% in the fourth quarter of 2019.

We continued to execute our dual-brand strategy. In 2020, we sold approximately 10 million premium smartphones globally with retail prices at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets. In December 2020, we unveiled *Mi 11* in mainland China, the world's first smartphone to feature the Snapdragon 888 chipset. With prices starting from RMB3,999, *Mi 11*'s debut achieved widespread popularity as shipments surpassed 1 million units in the first 21 days following its release. In the first month after its release, over 50% of *Mi 11*'s users were new Xiaomi users (based on internal data tracing back to November 1, 2017). Due to increased sales of our premium smartphones, our smartphone ASP increased by 6.1% to RMB1,040 in 2020 and by 6.8% to RMB1,009 in the fourth quarter of 2020, both on a year-over-year basis.

Our Redmi brand remained committed to making advanced technology accessible to the mass market. In February 2021, we unveiled the *Redmi K40 series*, of which *Redmi K40 Pro* and *Redmi K40 Pro+* are both equipped with the Snapdragon 888 chipset. These smartphones offer compelling price-to-performance ratio at prices starting from RMB1,999. Furthermore, *Redmi Note 9* series has been well received by the market and sold more than 30 million units globally between its debut on March 12, 2020 and December 31, 2020.

We continued to build our distribution channels in mainland China. In the online channel, we further strengthened our market position. According to third-party data, our online smartphone market share in mainland China in terms of shipments increased from 18.5% in the first quarter of 2020 to 29.5% in the fourth quarter of 2020. During the Singles' Day and the Double 12 Shopping Festivals in 2020, Xiaomi and Redmi brand smartphones together ranked 1st in sales volume among Android smartphones on Tmall.com, JD.com, and Suning.com. In the offline retail channel, we significantly increased the number of retail stores while emphasizing operating efficiency.

3. IoT and lifestyle products

As we continue to execute our "Smartphone × AIoT" strategy, revenue from our IoT and lifestyle products segment reached RMB67.4 billion in 2020, representing an increase of 8.6% year-over-year. In the fourth quarter of 2020, revenue from our IoT and lifestyle products segment was RMB21.1 billion, representing an increase of 8.0% year-over-year.

In 2020, global shipments of our smart TVs reached 12.0 million units versus 12.8 million units in 2019, primarily due to the impact of the Covid-19 pandemic and the tight supply of major components. Nevertheless, our smart TV business maintained its leadership position. According to All View Cloud ("**AVC**"), in the fourth quarter of 2020, our TV shipments ranked No.1 in mainland China for the 8th consecutive quarter and remained top five globally.

As a leader in the smart TV industry, we focus on strengthening our market position in the premium and ultra-large screen categories while expanding our global footprint. In the premium market, we introduced a number of flagship products within the Mi TV Master Series since July 2020, including the world's first mass-produced transparent TV Mi TV LUX Transparent Edition, and Mi TV LUX 82" Pro, both with prices starting from RMB49,999. To address the increasing market demand for ultra-large screen smart TVs, following the successful debut of Redmi Smart TV MAX 98", we introduced Redmi MAX 86" super-size TV in February 2021, with prices starting from RMB7,999. Our ultra-large screen TVs have gained wide popularity. According to AVC, in the fourth quarter of 2020, Xiaomi and Redmi TVs ranked No. 1 by retail sales volume in the over 70-inch TV market in mainland China, with a market share of 27.7%. In overseas markets, following the successful launch of our smart TVs in India, Indonesia and Russia, we also introduced our smart TVs to France, Poland and other key markets in 2020 as we further captured the large overseas market opportunity.

Additionally, in the fourth quarter of 2020, we continued to introduce competitive new products in key IoT product categories. In February 2021, we launched the new RedmiBook Pro laptop series, featuring built-in AI assistant ("小愛同學") for the first time, with prices starting from RMB4,699. With regards to wearable devices, we unveiled Mi Watch Lite in December 2020 and Mi True Wireless Earbuds in February 2021. According to "IDC's PRC Quarterly Smart Home Device Tracker, 2020 Q3," in the third quarter of 2020, we ranked among the top three in shipments in mainland China across multiple smart device categories, including air purifiers, robot vacuum cleaners, smart security cameras, and smart lighting.

We devoted more resources to IoT products that enhance interconnectivity in the smart home and continued to introduce products that were well-received by the market. In 2020, global shipments of our AI speakers exceeded 10 million units while those of our WiFi routers exceeded 15 million units. According to AVC, in the fourth quarter of 2020, our AI speaker ranked 2nd in terms of retail sales volume in mainland China with a market share of 29.4%. Our routers also ranked 2nd in terms of online retail sales volume in mainland China, with a market

CHAIRMAN'S STATEMENT

share of 20.6%. In December 2020, we launched Mi AIoT Router AX6000, featuring enhanced WiFi6 technology. With prices starting from RMB599, this device is equipped with "Xiaomi Mesh Networking" and "Xiaomi Express Connect", which further strengthened interconnectivity among our IoT products.

Revenue from IoT and lifestyle products in overseas markets continued its strong growth trajectory. As of December 31, 2020, we have sold our IoT and lifestyle products in more than 80 countries and regions. Since the fourth quarter of 2020, we introduced a series of new products to overseas markets, such as Mi Electric Scooter Pro 2 Mercedes-AMG Petronas F1 Team Edition. Going forward, we aim to strengthen our position in overseas markets and bring a wide range of cool and innovative products to global users. Leveraging our brand and distribution channels, we aim to drive cross-selling between IoT products and smartphones and capture a greater share of the large overseas IoT market.

4. Internet services

Our internet services segment maintained solid growth momentum in 2020 as revenue grew 19.7% year-over-year to RMB23.8 billion. In the fourth quarter of 2020, revenue from our internet services segment amounted to RMB6.2 billion, representing an increase of 8.4% year-over-year.

In 2020, our global internet user base continued to grow rapidly. In December 2020, the MAU of MIUI increased by 28.0% year-over-year to 396.3 million, while the MAU of MIUI in mainland China reached 111.0 million. In January 2021, the MAU of MIUI in mainland China further climbed to 114.5 million as our mainland China smartphone shipments continued to grow. At the same time, our TV internet users continued to expand. As of December 31, 2020, the number of TV paid subscribers increased by 14.4% year-over-year to 4.3 million.

In 2020, despite the impact of COVID-19, our advertising revenue amounted to RMB12.7 billion, representing an increase of 19.2% year-over-year. In the fourth quarter of 2020, our advertising revenue increased 23.1% year-over-year to reach a quarterly record high of RMB3.7 billion. We will continue to place user experience as our priority as we improve our algorithms and our content recommendations.

Our gaming revenue increased 31.4% year-over-year to RMB4.2 billion in 2020. In the fourth quarter of 2020, our gaming revenue reached RMB0.9 billion, a decrease of 1.4% year-over-year, mainly due to the adjustment of commercial terms with certain game publishers. Looking ahead, we plan to further enhance our game distribution capabilities across multiple devices. Furthermore, as we increase sales of our premium smartphones, we believe there will be additional room to grow our spending per user.

Our TV internet business delivered solid growth with a fast-growing user base. As we broaden our TV internet service offerings, revenue from multiple revenue streams such as Kids Channel subscription and TV app store have increased. Going forward, we will provide more high-quality content offerings while addressing user needs for entertainment and learning.

In the fourth quarter of 2020, overseas internet services revenue increased by 55.1% year-over-year to RMB0.9 billion, accounting for 14.1% of total internet services revenue. We will continue to expand our overseas user base and enrich our internet service offerings to drive growth in our overseas internet services business.

We continue to devote resources to improve user experience. In 2020, we further optimized our recommendation engine to provide better and more personalized content for users. Furthermore, since releasing MIUI 12, we have deployed system-level functionality to provide users more visibility into how their data is collected and gave users greater control over their data. MIUI 12.5 will further enhance user privacy protection through functions including "fuzzy positioning" to prevent apps from collecting excessive private information.

5. Overseas markets

In 2020, our revenue from overseas markets increased 34.1% year-over-year to RMB122.4 billion, accounting for 49.8% of our total revenue. In the fourth quarter of 2020, our revenue from overseas markets rose 27.6% to RMB33.8 billion, accounting for 47.9% of our total revenue. As of December 31, 2020, our products have been sold in a more than 100 countries and regions around the world. According to Canalys, we ranked among the top five vendors in terms of smartphone shipments in 54 countries and regions globally in the fourth quarter of 2020.

We continued to gain strong momentum in major markets around the world. According to Canalys, in the fourth quarter of 2020, we ranked top 3 for the 3rd consecutive quarter in Europe in terms of smartphone shipments with a market share of 15.3%. According to Canalys, in the fourth quarter of 2020, we ranked No. 1 in Central and Eastern Europe for the first time as our smartphone shipments increased 17.5% year-over-year to reach 24.7% market share. In the fourth quarter of 2020, we retained top 3 position in Western Europe as our smartphone shipments increased 57.3% year-over-year, with 10.9% market share. In particular, our smartphone shipments in Spain ranked No.1 for the 4th consecutive quarter with 27.0% market share. Additionally, our smartphone shipments increased by 86.2% in France, by 61.6% in Italy and by 139.8% in Germany, all on a year-over-year basis in the fourth quarter of 2020, according to Canalys.

In India, we ranked No.1 for the 13th consecutive quarter in the fourth quarter of 2020 in terms of smartphone shipments, with a market share of 27.4%, according to Canalys.

CHAIRMAN'S STATEMENT

In the fourth quarter of 2020, we also experienced meaningful growth in other emerging markets. According to Canalys, our smartphone shipments ranked 4th in Latin America in the fourth quarter of 2020, with a year-over-year growth of 215.4%. Our market share in the region increased to 9.1% in the fourth quarter of 2020 from 2.7% in the same period of 2019. In the fourth quarter of 2020, our smartphone shipments also attained a top 4 position in the Middle East and Africa.

In 2020, we further strengthened our channel capabilities in overseas markets. In 2020, we sold more than 16.0 million smartphones via online channels in overseas markets excluding India, an increase of over 90.0% year-over-year. In addition, we shipped more than 9 million smartphones through carrier channels in overseas markets excluding India, an increase of over 380.0% year-over-year. According to Canalys, our smartphone market share in Western Europe carrier channels increased to 7.4% in the fourth quarter of 2020 from 4.6% in the third quarter of 2020 and from 2.6% in the fourth quarter of 2019.

6. Strategic updates

Smartphone x AIoT

We continue to execute our "Smartphone × AIoT" strategy, building a global smart living ecosystem centered around smartphones. As of December 31, 2020, the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reached 324.8 million units, representing a year-over-year increase of 38.0%. The number of users with five or more devices connected to our AIoT platform (excluding smartphones and laptops) reached 6.2 million, representing a year-over-year increase of 52.9%. In December 2020, our AI Assistant ("小愛同學") had 86.7 million MAU, an increase of 43.5% year-over-year, and the MAU of our Mi Home App reached 45.0 million, representing a year-over-year increase of 22.1%.

In 2020, we continued to strengthen the synergies between our smartphones and IoT products. In October 2020, we introduced our proprietary ultra-wideband (UWB) technology, which enables smartphones to control smart devices simply by pointing towards them. We released "Xiaomi Express Connect" in November 2020, a feature that equips smartphones with automatic discovery and network connection of nearby IoT devices. At the same time, we launched Xiaomi Vela, an IoT software platform built on the Nuttx open-source embedded operating system, enhancing interconnectivity across everyday IoT scenarios. In December 2020, we unveiled the MIUI+ feature along with MIUI 12.5, which facilitates seamless collaboration between smartphones and laptops. Looking ahead, we will continue to strengthen the interconnectivity between smartphones and IoT devices to deepen the competitive moat around the Xiaomi ecosystem.

Offline retail channel expansion

We have been strategically expanding our offline retail presence in mainland China by increasing the number of retail stores while strongly emphasizing operating efficiency. We are determined to expand our footprint to every county across mainland China, making Mi Homes accessible to every Mi Fan. As of December 31, 2020, the number of retail stores in mainland China exceeded 3,200, a net increase of over 1,000 stores from September 30, 2020.

To ensure high operating efficiency, we are building a digitized new retail system. By using our proprietary retail management app, we and our business partners can consolidate and analyze real-time data including user traffic, in-store sales, and inventory to support intelligent business decision-making. Our big-data capabilities will bolster the core competency of our offline retail operations, optimizing overall operating efficiency and improving return on investment for each store.

Focus on User Experience

During the fourth quarter of 2020, we completed the reorganization of our Internet and software business units, which is now consolidated into three departments: Software & Experience, Internet Business and Data Services Platform. The Software & Experience department focuses on enhancing user experience and interconnectivity across devices through our proprietary MIUI operating system. The Internet Business department implements monetization strategies for our Internet services, including the development of content distribution, business cooperation and marketing strategies. The Data Services Platform is focused on enhancing big data analytics and leveraging our data to improve our business operations.

This reorganization will facilitate more efficient cooperation among our various platforms and the sharing of traffic and commercial resources, generating synergies that will vastly improve overall user experience and monetization.

Investment in Technology

Technology innovation is the cornerstone of our sustainable growth, and we will never cease to pursue cutting-edge technologies. In February 2021, we were listed among "Top 100 Global Innovator" by Clarivate Analytics for the 3rd consecutive year. In 2020, we recorded RMB9.3 billion in research and development expenses, and we will continue to invest in the latest technologies across multiple areas going forward.

In 2020, we achieved significant breakthroughs in smartphone camera technology. During the year, our Mi 10 Pro and Mi 10 Ultra both topped the DXOMARK Camera rankings, retaining the top spot together for 120 days. We had R&D centers in nine locations worldwide including Beijing, Paris and Tokyo and established an expert camera engineering team of approximately 1,000 talents. This has allowed us to achieve breakthroughs across pixel performance, imaging and zoom.

Following the launch of our 120W wired fast-charging technology and 80W wireless charging technology in 2020, we unveiled our proprietary remote charging technology — Mi Air Charge in January 2021. This groundbreaking charging technology accurately detects smartphone location, enabling users to remotely charge smartphones without any cables or wireless charging stands. This technology marks another revolutionary innovation in wireless charging led by Xiaomi.

CHAIRMAN'S STATEMENT

In February 2021, we debuted our first quad-curved waterfall display concept smartphone which features an 88° hyper quad-curved screen that is extended to cover almost the entire frame of the smartphone. Making the smartphone body free of ports or buttons, this marks another revolutionary exploration into the next generation of smartphone display design.

To promote a culture of technology innovation, in January 2021, we awarded the 2020 Xiaomi Million Dollar Technology Award to the engineering teams that contributed to the development of fast charging technology and MIUI privacy protection features, expressing our appreciation for and encouragement towards our engineering talents. In 2021, we will continue to expand our investments and recruit more engineers to strengthen our research and development capabilities.

Investments

As of December 31, 2020, we had invested in more than 310 companies with an aggregate book value of RMB48.0 billion, an increase of 60.1% year-over-year. In 2020, we generated net gains on disposal of investments (after tax) of RMB2.2 billion. As of December 31, 2020, 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, 2020 (ii) book value of our stakes in unlisted investee companies accounted for using the equity method and (iii) book value of long-term investments measured at fair value through profit or loss) reached RMB67.3 billion. Our investments not only yield capital gains, but create deep business synergies and help us drive the evolution of smart manufacturing.

Our Pledge

Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. In order 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 profit margin exceeds 5.0%, we will return the excess above 5.0% to our users. In 2020, our hardware business was profitable with an overall net profit margin of 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, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The following table sets forth the comparative figures for the years ended December 31, 2020 and 2019:

	Year ended December 31,	
	2020	2019
	(RMB in millions)	
Revenue	**245,865.6**	205,838.7
Cost of sales	**(209,113.8)**	(177,284.6)
Gross profit	**36,751.8**	28,554.1
Selling and marketing expenses	**(14,539.4)**	(10,378.1)
Administrative expenses	**(3,746.4)**	(3,103.9)
Research and development expenses	**(9,256.1)**	(7,492.6)
Fair value changes on investments measured at fair value through profit or loss	**13,173.5**	3,813.0
Share of gains/(losses) of investments accounted for using the equity method	**1,380.9**	(671.8)
Other income	**642.9**	1,265.9
Other losses, net	**(372.5)**	(226.4)
Operating profit	**24,034.7**	11,760.2
Finance (expenses)/income, net	**(2,401.3)**	402.4
Profit before income tax	**21,633.4**	12,162.6
Income tax expenses	**(1,320.7)**	(2,059.7)
Profit for the year	**20,312.7**	10,102.9
Non-IFRS Measure: Adjusted net profit	**13,006.4**	11,532.3

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 19.4% to RMB245.9 billion for the Reporting Period, compared to RMB205.8 billion for the year ended December 31, 2019. The following table sets forth our revenue by line of business for the Reporting Period and the year ended December 31, 2019:

	Year ended December 31,			
	2020		2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	152,190.9	61.9%	122,094.9	59.3%
IoT and lifestyle products	67,410.5	27.4%	62,088.0	30.2%
Internet services	23,755.3	9.7%	19,841.6	9.6%
Others	2,508.9	1.0%	1,814.2	0.9%
Total revenue	245,865.6	100.0%	205,838.7	100.0%

Smartphone

Revenue from our smartphones segment increased by 24.6% from RMB122.1 billion for the year ended December 31, 2019 to RMB152.2 billion for the Reporting Period, driven by growth in both sales volume and ASP. We sold 146.4 million smartphone units for the Reporting Period, an increase of 17.5% from 124.6 million units for the year ended December 31, 2019. The ASP of our smartphones increased by 6.1% from RMB979.9 per unit for the year ended December 31, 2019 to RMB1,039.8 per unit for the Reporting Period. The increase in ASP was primarily due to the increase in sales of our 5G and mid- to high-end smartphone. In 2020, we sold approximately 10 million premium smartphones globally with retail prices at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 8.6% from RMB62.1 billion for the year ended December 31, 2019 to RMB67.4 billion for the Reporting Period, primarily due to the strong growth in demand of certain IoT products, such as robot vacuum cleaners, routers and TWS earbuds. Revenue from smart TVs and laptops decreased by 7.0% from RMB24.2 billion for the year ended December 31, 2019 to RMB22.5 billion for the Reporting Period, mainly due to lower sales activities caused by supply constraints.

Internet services

Revenue from our internet services segment increased by 19.7% from RMB19.8 billion for the year ended December 31, 2019 to RMB23.8 billion for the Reporting Period, mainly due to the increase in the revenue from advertising and gaming businesses. Our MIUI MAU increased by 28.0% from 309.6 million in December 2019 to 396.3 million in December 2020.

Others

Other revenue increased by 38.3% from RMB1,814.2 million for the year ended December 31, 2019 to RMB2,508.9 million for the Reporting Period, primarily due to the increase in revenue from the installation services provided for certain IoT products.

Cost of Sales

Our cost of sales increased by 18.0% from RMB177.3 billion for the year ended December 31, 2019 to RMB209.1 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, 2019:

	Year ended December 31,			
	2020		2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**138,986.9**	**56.5%**	113,335.5	55.1%
IoT and lifestyle products	**58,804.8**	**23.9%**	55,134.3	26.8%
Internet services	**9,111.0**	**3.7%**	6,998.1	3.4%
Others	**2,211.1**	**1.0%**	1,816.7	0.8%
Total cost of sales	**209,113.8**	**85.1%**	177,284.6	86.1%

Smartphones

Cost of sales related to our smartphones segment increased by 22.6% from RMB113.3 billion for the year ended December 31, 2019 to RMB139.0 billion for the Reporting Period, mainly due to the increased sales of our smartphones.

MANAGEMENT DISCUSSION AND ANALYSIS

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 6.7% from RMB55.1 billion for the year ended December 31, 2019 to RMB58.8 billion for the Reporting Period, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment increased by 30.2% from RMB7.0 billion for the year ended December 31, 2019 to RMB9.1 billion for the Reporting Period, primarily due to the increased costs of all of our major internet service businesses.

Others

Cost of sales in our others segment increased by 21.7% from RMB1,816.7 million for the year ended December 31, 2019 to RMB2,211.1 million for the Reporting Period, primarily due to the increased costs from the installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 28.7% from RMB28.6 billion for the year ended December 31, 2019 to RMB36.8 billion for the Reporting Period. The gross profit margin from our smartphones segment increased from 7.2% for the year ended December 31, 2019 to 8.7% for the Reporting Period. In 2020, we launched several popular models such as *Mi 10* series*, Redmi 9* series *and Redmi Note 9* series which were highly regarded in the market for their outstanding performance. The gross profit margin from our smartphones segment increased in 2020, mainly due to the improvement of product mix and improved operating efficiencies for certain smartphone models.

The gross profit margin from our IoT and lifestyle products segment increased from 11.2% for the year ended December 31, 2019 to 12.8% for the Reporting Period, mainly due to the strong growth in our certain IoT products with higher gross profit margin.

The gross profit margin from our internet services segment was 61.6% for the Reporting Period, compared with 64.7% for the year ended December 31, 2019, mainly due to the decline of gross profit margin from our fintech business. In 2020, gross profit margin of our fintech business declined due to the increased provision for loss allowance during the pandemic.

As a result of the foregoing, our gross margin increased from 13.9% for the year ended December 31, 2019 to 14.9% for the Reporting Period.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 40.1% from RMB10.4 billion for the year ended December 31, 2019 to RMB14.5 billion for the Reporting Period, primarily due to increases in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses increased by 63.2% from RMB3.4 billion for the year ended December 31, 2019 to RMB5.5 billion for the Reporting Period, primarily due to our marketing efforts for premium smartphone models to increase brand awareness during the Reporting Period. Packaging and transportation expenses increased by 32.2% from RMB2.6 billion for the year ended December 31, 2019 to RMB3.5 billion for the Reporting Period, primarily due to the expansion of our overseas business.

Administrative Expenses

Our administrative expenses increased by 20.7% from RMB3.1 billion for the year ended December 31, 2019 to RMB3.7 billion for the Reporting Period, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 23.5% from RMB7.5 billion for the year ended December 31, 2019 to RMB9.3 billion for the Reporting Period, primarily due to increases in compensation for research and development personnel and the expansion of our research projects.

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 increased by 245.5% from a gain of RMB3.8 billion for the year ended December 31, 2019 to a gain of RMB13.2 billion for the Reporting Period, primarily due to the increase in fair value of our equity and preferred share investments for the Reporting Period.

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

Our share of gains/(losses) of investments accounted for using the equity method changed from net losses of RMB671.8 million for the year ended December 31, 2019 to net gains of RMB1,380.9 million for the Reporting Period, primarily due to the dilution gain from the initial public offering of Kingsoft Cloud Holdings Limited (Nasdaq: KC).

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Our other income decreased by 49.2% from RMB1,265.9 million for the year ended December 31, 2019 to RMB642.9 million for the Reporting Period, primarily due to the decrease of investment income from short-term investments measured at fair value through profit or loss and lower dividend income received from our investee companies.

Other Losses, Net

Our other net losses increased by 64.5% from RMB226.4 million for the year ended December 31, 2019 to RMB372.5 million in the Reporting Period. This is due to the recognition of foreign exchange losses in the Reporting Period, partially offset by the net gains on disposal of investments accounted for using the equity method.

Finance (Expenses)/Income, Net

Our net finance (expenses)/income changed from net income of RMB402.4 million for the year ended December 31, 2019 to net expenses of RMB2,401.3 million for the Reporting Period, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses decreased from RMB2.1 billion for the year ended December 31, 2019 to RMB1.3 billion for the Reporting Period, primarily due to 1) the additional deductibility of expense items; and 2) the decrease of deferred tax expenses.

Profit for the Year

As a result of the foregoing, we had a profit of RMB20.3 billion for the Reporting Period, compared with a profit of RMB10.1 billion for the year ended December 31, 2019.

Fourth Quarter of 2020 Compared to Fourth Quarter of 2019

The following table sets forth the comparative figures for the fourth quarter of 2020 and the fourth quarter of 2019:

	Unaudited Three months ended December 31, 2020	Unaudited Three months ended December 31, 2019
	(RMB in millions)	
Revenue	70,462.9	56,469.7
Cost of sales	(59,136.6)	(48,626.4)
Gross profit	11,326.3	7,843.3
Selling and marketing expenses	(5,090.3)	(3,701.1)
Administrative expenses	(1,275.8)	(904.6)
Research and development expenses	(3,105.6)	(2,252.7)
Fair value changes on investments measured at fair value through profit or loss	7,041.5	1,818.4
Share of gains/(losses) of investments accounted for using the equity method	368.2	(273.8)
Other income	246.9	350.9
Other gains/(losses), net	90.7	(183.3)
Operating profit	9,601.9	2,697.1
Finance (expenses)/income, net	(741.0)	19.2
Profit before income tax	8,860.9	2,716.3
Income tax expenses	(65.9)	(280.1)
Profit for the period	8,795.0	2,436.2
Non-IFRS Measure: Adjusted net profit	3,204.4	2,344.4

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 24.8% to RMB70.5 billion in the fourth quarter of 2020 on a year-over-year basis. The following table sets forth our revenue by line of business in the fourth quarter of 2020 and the fourth quarter of 2019:

	Unaudited Three months ended			
	December 31, 2020		December 31, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	42,634.5	60.5%	30,796.8	54.5%
IoT and lifestyle products	21,054.4	29.9%	19,494.0	34.5%
Internet services	6,175.1	8.8%	5,695.1	10.1%
Others	598.9	0.8%	483.8	0.9%
Total revenue	70,462.9	100.0%	56,469.7	100.0%

Smartphone

Revenue from our smartphones segment increased by 38.4% from RMB30.8 billion in the fourth quarter of 2019 to RMB42.6 billion for the fourth quarter of 2020. We sold 42.3 million smartphone units in the fourth quarter of 2020, an increase of 29.7% from 32.6 million units in the fourth quarter of 2019. The ASP of our smartphones increased by 6.8% from RMB945.1 per unit in the fourth quarter of 2019 to RMB1,009.1 per unit in the fourth quarter of 2020. The increase in ASP was primarily due to the increase in sales of our 5G mid- to high-end smartphone models in the fourth quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 8.0% from RMB19.5 billion in the fourth quarter of 2019 to RMB21.1 billion in the fourth quarter of 2020. The increase in revenue was primarily due to the strong growth in demand for certain IoT products, such as robot vacuum cleaners and electric scooters. Revenue from smart TVs and laptops decreased by 10.1% from RMB7.9 billion in the fourth quarter of 2019 to RMB7.1 billion in the fourth quarter of 2020, mainly due to supply constraints and lack of new product launches for laptop business.

Internet services

Revenue from our internet services segment increased by 8.4% from RMB5.7 billion in the fourth quarter of 2019 to RMB6.2 billion in the fourth quarter of 2020, driven by the growth in our advertising business. Our MIUI MAU was 396.3 million in December 2020, an increase of 28.0% from 309.6 million in December 2019.

Others

Other revenue increased by 23.8% from RMB483.8 million in the fourth quarter of 2019 to RMB598.9 million in the fourth quarter of 2020, primarily due to the increase in revenue from the installation services provided for certain IoT products.

Cost of Sales

Our cost of sales increased by 21.6% from RMB48.6 billion in the fourth quarter of 2019 to RMB59.1 billion in the fourth quarter of 2020. The following table sets forth our cost of sales by line of business in the fourth quarter of 2020 and the fourth quarter of 2019:

	Unaudited Three months ended			
	December 31, 2020		December 31, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**38,162.9**	**54.2%**	28,405.3	50.3%
IoT and lifestyle products	**18,508.1**	**26.3%**	17,659.2	31.3%
Internet services	**1,951.0**	**2.8%**	2,068.4	3.7%
Others	**514.6**	**0.6%**	493.5	0.8%
Total cost of sales	**59,136.6**	**83.9%**	48,626.4	86.1%

Smartphone

Cost of sales related to our smartphones segment increased by 34.4% from RMB28.4 billion in the fourth quarter of 2019 to RMB38.2 billion in the fourth quarter of 2020, primarily due to the increased sales of our smartphones.

MANAGEMENT DISCUSSION AND ANALYSIS

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 4.8% from RMB17.7 billion in the fourth quarter of 2019 to RMB18.5 billion in the fourth quarter of 2020, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 5.7% from RMB2.1 billion in the fourth quarter of 2019 to RMB2.0 billion in the fourth quarter of 2020, primarily due to the decreased cost of our fintech business.

Others

Cost of sales related to our others segment increased by 4.3% from RMB493.5 million in the fourth quarter of 2019 to RMB514.6 million in the fourth quarter of 2020, primarily due to the increased costs from sale of materials and the installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 44.4% from RMB7.8 billion in the fourth quarter of 2019 to RMB11.3 billion in the fourth quarter of 2020. The gross profit margin from our smartphones segment increased from 7.8% in the fourth quarter of 2019 to 10.5% in the fourth quarter of 2020. The increase in gross profit margin mainly reflected the improvement of our product mix.

The gross profit margin from our IoT and lifestyle products segment increased from 9.4% in the fourth quarter of 2019 to 12.1% in the fourth quarter of 2020, mainly due to the strong growth in our IoT products with higher gross profit margin.

The gross profit margin from our internet services segment increased from 63.7% in the fourth quarter of 2019 to 68.4% in the fourth quarter of 2020, mainly due to the higher revenue contribution from advertising business with higher gross profit margin.

As a result of the foregoing, our gross profit margin increased from 13.9% in the fourth quarter of 2019 to 16.1% in the fourth quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 37.5% from RMB3.7 billion in the fourth quarter of 2019 to RMB5.1 billion in the fourth quarter of 2020, primarily due to increases in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses increased by 48.1% from RMB1.5 billion in the fourth quarter of 2019 to RMB2.3 billion in the fourth quarter of 2020, primarily due to our elevated marketing efforts to increase brand awareness in overseas markets in the fourth quarter of 2020. The packaging and transportation expenses increased by 28.8% from RMB822.5 million in the fourth quarter of 2019 to RMB1,059.2 million in the fourth quarter of 2020, primarily due to the expansion of our overseas business.

Administrative Expenses

Our administrative expenses increased by 41.0% from RMB904.6 million in the fourth quarter of 2019 to RMB1,275.8 million in the fourth quarter of 2020, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 37.9% from RMB2.3 billion in the fourth quarter of 2019 to RMB3.1 billion in the fourth quarter of 2020, primarily due to the expansion of our research projects and the increase in compensation for research and development personnel.

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

Our fair value changes on investments measured at fair value through profit or loss increased by 287.2% from a gain of RMB1.8 billion in the fourth quarter of 2019 to a gain of RMB7.0 billion in the fourth quarter of 2020, primarily due to the increase in fair value gains of equity and preferred share investments in the fourth quarter of 2020.

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

Our share of gains/(losses) of investments accounted for using the equity method changed from net losses of RMB273.8 million in the fourth quarter of 2019 to net gains of RMB368.2 million in the fourth quarter of 2020, primarily due to the dilution gains from our certain investees in the fourth quarter of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Our other income decreased by 29.7% from RMB350.9 million in the fourth quarter of 2019 to RMB246.9 million in the fourth quarter of 2020, primarily due to the decrease of investment income from short-term investments measured at fair value through profit or loss.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from net losses of RMB183.3 million in the fourth quarter of 2019 to net gains of RMB90.7 million in the fourth quarter of 2020. This is due to the recognition of foreign exchange gains for the fourth quarter of 2020, compared to foreign exchange losses for the fourth quarter of 2019.

Finance (Expenses)/Income, Net

Our net finance (expenses)/income changed from net income of RMB19.2 million in the fourth quarter of 2019 to net expenses of RMB741.0 million in the fourth quarter of 2020, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses decreased by 76.5% from RMB280.1 million in the fourth quarter of 2019 to RMB65.9 million in the fourth quarter of 2020, primarily due to 1) the additional deductibility of expense items; and 2) the decrease of deferred tax expenses.

Profit for the Period

As a result of the foregoing, we had a profit of RMB8.8 billion in the fourth quarter of 2020, compared with a profit of RMB2.4 billion in the fourth quarter of 2019.

Fourth Quarter of 2020 Compared to Third Quarter of 2020

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

	Unaudited Three months ended	
	December 31, 2020	September 30, 2020
	(RMB in millions)	
Revenue	70,462.9	72,162.8
Cost of sales	(59,136.6)	(61,997.1)
Gross profit	11,326.3	10,165.7
Selling and marketing expenses	(5,090.3)	(3,600.6)
Administrative expenses	(1,275.8)	(852.7)
Research and development expenses	(3,105.6)	(2,321.3)
Fair value changes on investments measured at fair value through profit or loss	7,041.5	3,417.9
Share of gains/(losses) of investments accounted for using the equity method	368.2	(10.7)
Other income	246.9	139.3
Other gains/(losses), net	90.7	(241.0)
Operating profit	9,601.9	6,696.6
Finance expenses, net	(741.0)	(1,245.9)
Profit before income tax	8,860.9	5,450.7
Income tax expenses	(65.9)	(586.3)
Profit for the period	8,795.0	4,864.4
Non-IFRS Measure: Adjusted net profit	3,204.4	4,128.3

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue decreased by 2.4% to RMB70.5 billion in the fourth quarter of 2020 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the fourth quarter of 2020 and the third quarter of 2020:

	Unaudited Three months ended			
	December 31, 2020		September 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	42,634.5	60.5%	47,604.1	66.0%
IoT and lifestyle products	21,054.4	29.9%	18,119.0	25.1%
Internet services	6,175.1	8.8%	5,771.9	8.0%
Others	598.9	0.8%	667.8	0.9%
Total revenue	70,462.9	100.0%	72,162.8	100.0%

Smartphone

Revenue from our smartphones segment decreased by 10.4% from RMB47.6 billion in the third quarter of 2020 to RMB42.6 billion in the fourth quarter of 2020. We sold 42.3 million units of smartphones in the fourth quarter of 2020, compared to 46.6 million units in the third quarter of 2020, mainly due to supply constraints of key components. The ASP of our smartphones was RMB1,009.1 per unit in the fourth quarter of 2020, compared with RMB1,022.3 per unit in the third quarter of 2020, mainly because we launched more high-end smartphone models in the third quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 16.2% from RMB18.1 billion in the third quarter of 2020 to RMB21.1 billion in the fourth quarter of 2020, primarily due to the growth in demand of certain IoT products, such as smart TVs, air purifiers and robot vacuum cleaners. Revenue from smart TVs and laptops increased by 20.3% from RMB5.9 billion in the third quarter of 2020 to RMB7.1 billion in the fourth quarter of 2020, mainly due to the increase in sales of premium and large-screen smart TVs.

Internet services

Revenue from our internet services segment increased by 7.0% from RMB5.8 billion in the third quarter of 2020 to RMB6.2 billion in the fourth quarter of 2020, primarily due to the growth in our advertising business.

Others

Other revenue decreased by 10.3% from RMB667.8 million in the third quarter of 2020 to RMB598.9 million in the fourth quarter of 2020, primarily due to the decrease in revenue from the sales of materials.

Cost of Sales

Our cost of sales decreased by 4.6% from RMB62.0 billion in the third quarter of 2020 to RMB59.1 billion in the fourth quarter of 2020.

	Unaudited Three months ended			
	December 31, 2020		September 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	38,162.9	54.2%	43,615.1	60.4%
IoT and lifestyle products	18,508.1	26.3%	15,538.6	21.5%
Internet services	1,951.0	2.8%	2,283.3	3.2%
Others	514.6	0.6%	560.1	0.8%
Total cost of sales	59,136.6	83.9%	61,997.1	85.9%

Smartphone

Cost of sales related to our smartphones segment decreased by 12.5% from RMB43.6 billion in the third quarter of 2020 to RMB38.2 billion in the fourth quarter of 2020, primarily due to the decreased sales of our smartphones.

IoT and lifestyle products

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

MANAGEMENT DISCUSSION AND ANALYSIS

Internet services

Cost of sales related to our internet services segment decreased by 14.6% from RMB2.3 billion in the third quarter of 2020 to RMB2.0 billion in the fourth quarter of 2020, primarily due to the decreased cost of our fintech business.

Others

Cost of sales related to our others segment decreased by 8.1% from RMB560.1 million in the third quarter of 2020 to RMB514.6 million in the fourth quarter of 2020, mainly due to the decrease in sales of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 11.4% from RMB10.2 billion in the third quarter of 2020 to RMB11.3 billion in the fourth quarter of 2020. The gross profit margin from our smartphones segment increased from 8.4% in the third quarter of 2020 to 10.5% in the fourth quarter of 2020. The increase in gross profit margin mainly reflected the improvement of our product mix.

The gross profit margin from our IoT and lifestyle products segment decreased from 14.2% in the third quarter of 2020 to 12.1% in the fourth quarter of 2020, mainly due to enhanced promotional efforts during major shopping festivals in the fourth quarter of 2020.

The gross profit margin from our internet services segment increased from 60.4% in the third quarter of 2020 to 68.4% in the fourth quarter of 2020, mainly due to the increased gross profit margin from our advertising and fintech businesses.

As a result of the foregoing, our gross profit margin increased from 14.1% in the third quarter of 2020 to 16.1% in the fourth quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 41.4% from RMB3.6 billion in the third quarter of 2020 to RMB5.1 billion in the fourth quarter of 2020, primarily due to the increase in promotion and advertising expenses. The promotion and advertising expenses increased by 74.6% from RMB1.3 billion in the third quarter of 2020 to RMB2.3 billion in the fourth quarter of 2020, primarily due to our elevated marketing efforts to increase our brand awareness in overseas markets.

Administrative Expenses

Our administrative expenses increased by 49.6% from RMB852.7 million in the third quarter of 2020 to RMB1,275.8 million in the fourth quarter of 2020, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 33.8% from RMB2.3 billion in the third quarter of 2020 to RMB3.1 billion in the fourth quarter of 2020, primarily due to the expansion of our research projects.

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 increased by 106.0% from a gain of RMB3.4 billion in the third quarter of 2020 to a gain of RMB7.0 billion in the fourth quarter of 2020, primarily due to the increase in fair value gains of the equity and preferred share investments in the fourth quarter of 2020.

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

Our share of gains/(losses) of investments accounted for using the equity method changed from net losses of RMB10.7 million in the third quarter of 2020 to net gains of RMB368.2 million in the fourth quarter of 2020, primarily due to the dilution gains from our certain investees in the fourth quarter of 2020.

Other Income

Our other income increased by 77.2% from RMB139.3 million in the third quarter of 2020 to RMB246.9 million in the fourth quarter of 2020, primarily due to the increase of government grants.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from net losses of RMB241.0 million in the third quarter of 2020 to net gains of RMB90.7 million in the fourth quarter of 2020. This is due to the recognition of foreign exchange gains for the fourth quarter of 2020, compared to foreign exchange losses for the third quarter of 2020.

Finance Expenses, Net

Our net finance expenses decreased by 40.5% from RMB1,245.9 million in the third quarter of 2020 to RMB741.0 million in the fourth quarter of 2020, primarily due to the decrease in changes of value of financial liabilities to fund investors.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expenses

Our income tax expenses decreased by 88.8% from RMB586.3 million for the third quarter of 2020 to RMB65.9 million in the fourth quarter of 2020, primarily due to 1) the additional deductibility of expense items; and 2) the decrease of deferred tax expenses.

Profit for the Period

As a result of the foregoing, we had a profit of RMB4.9 billion and a profit of RMB8.8 billion for the third and fourth quarter of 2020, respectively.

Non-IFRS Measure: Adjusted Net Profit

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

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

The following tables set forth reconciliations of the Group's non-IFRS measures for the fourth quarter of 2020, the third quarter of 2020, the fourth quarter of 2019 and the years ended December 31, 2020 and 2019 to the nearest measures prepared in accordance with IFRS.

In the fourth quarter of 2020, the net fair value changes on investments of negative RMB7,108.4 million in the non-IFRS adjustments mainly include the pre-tax net gains on deemed disposal on equity investees of RMB411.2 million, and the pre-tax fair value gains on investments measured at fair value through profit or loss of RMB6,806.4 million offset by the pre-tax net realized gains on disposal of investments of RMB109.2 million (RMB92.3 million post-tax).

	Unaudited Three Months Ended December 31, 2020						
		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 period	8,794,995	660,624	(7,108,419)	79	864,430	(7,318)	3,204,391
Net margin	12.5%						4.5%

	Unaudited Three Months Ended September 30, 2020						
		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 period	4,864,348	579,192	(2,557,510)	79	1,352,516	(110,362)	4,128,263
Net margin	6.7%						5.7%

MANAGEMENT DISCUSSION AND ANALYSIS

	Unaudited Three Months Ended December 31, 2019						
		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 period	2,436,219	597,150	(959,935)	79	190,298	80,595	2,344,406
Net margin	4.3%						4.2%

	Year Ended December 31, 2020						
		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	20,312,710	2,328,319	(12,187,807)	316	2,892,323	(339,498)	13,006,363
Net margin	8.3%						5.3%

	Year Ended December 31, 2019						
		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	10,102,950	2,201,722	(888,284)	1,704	250,706	(136,502)	11,532,296
Net margin	4.9%						5.6%

Notes:

(1) Includes fair value changes on equity investments and preferred shares investments deducting the cumulative fair value changes for investments (including the financial assets measured at fair value through profit or loss ("**FAFVPL**") and the investments using the equity method transferred from FAFVPL) disposed in the current period, net gains/(losses) on deemed disposals of investee companies, the impairment provision for investments, re-measurement of loss of significant influence in an associate and, re-measurement of investments transferring from FAFVPL to investments using the equity method.

(2) Represents amortization of intangible assets resulting from acquisitions.

(3) Represent the change of value of the financial liabilities payable to the fund investors, as a result of the change of fair value of the fund.

(4) Income tax effects of non-IFRS adjustments.

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:

1 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB54.8 billion and RMB30.3 billion as of December 31, 2020 and September 30, 2020, 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 and long-term bank deposits. As of December 31, 2020, the aggregate amount of cash resources of the Group was RMB108.0 billion.

Our gearing ratio was -44.5% and -88.9%, which represented a net cash position, as of September 30, 2020 and December 31, 2020, 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 2, 2020, the Company issued Panda bonds in the Chinese interbank bond market in the amount of RMB1 billion with a maturity date of 365 days and a coupon rate of 2.78%.

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.

Consolidated Statement of Cash Flows

	Unaudited Three months ended	
	December 31, 2020	September 30, 2020
	(in millions of RMB)	
Net cash generated from operating activities[1]	**13,527.5**	12,277.2
Net cash used in investing activities	**(10,505.8)**	(2,961.3)
Net cash generated from/(used in) financing activities[1]	**22,375.7**	(953.5)
Net increase in cash and cash equivalents	**25,397.4**	8,362.4
Cash and cash equivalents at beginning of period	**30,257.7**	22,843.3
Effects of exchange rate changes on cash and cash equivalents	**(902.7)**	(948.0)
Cash and cash equivalents at end of period	**54,752.4**	30,257.7

Note:

(1) Excluding (1) the decrease in loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the increase in trade payables resulting from the finance factoring business; (3) the decrease in restricted cash resulting from the fintech business; and (4) the increase in deposits from customers resulting from the Airstar bank, the net cash generated from operating activities was RMB11.9 billion in the fourth quarter of 2020 and RMB9.5 billion in the third quarter of 2020, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB23.4 billion in the fourth quarter of 2020 and the net cash generated from financing activities was RMB1.0 billion in the third quarter of 2020, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash Generated From Operating Activities

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

In the fourth quarter of 2020, net cash generated from our operating activities amounted to RMB13.5 billion, representing cash generated from operations of RMB14.0 billion minus income tax paid of RMB0.5 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB8.9 billion, mainly adjusted by an increase in trade payables of RMB6.5 billion, a decrease in trade receivables of RMB2.8 billion, partially offset by an increase in inventories of RMB7.8 billion.

Net Cash Used In Investing Activities

For the fourth quarter of 2020, our net cash used in investing activities was RMB10.5 billion, which was primarily attributed to the net changes of short-term bank deposits of RMB3.4 billion, the purchase of long-term bank deposits of RMB2.9 billion and the purchase of long-term investments measured at fair value through profit or loss of RMB2.2 billion.

Net Cash Generated From Financing Activities

For the fourth quarter of 2020, our net cash generated from financing activities was RMB22.4 billion, which was primarily attributed to the issuance of shares upon placement of RMB19.9 billion and the net increase of borrowings of RMB2.5 billion.

Borrowings

As of September 30, 2020 and December 31, 2020, we had total borrowings of RMB18.6 billion and RMB17.6 billion, respectively.

Capital Expenditure

	Three months ended	
	December 31, 2020	September 30, 2020
	(in millions of RMB)	
Capital expenditures	**1,510.1**	386.2
Placement of long-term investments[1]	**2,314.4**	1,678.4
Total	**3,824.5**	2,064.6

Note:

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

Off-Balance Sheet Commitments and Arrangements

As of December 31, 2020, except for financial guarantee contracts, we had not entered into any off-balance sheet arrangements.

Future Plans for Material Investments and Capital Assets

As of December 31, 2020, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

On May 21, 2020, the Company and the shareholders of Zimi International Incorporation ("**Zimi International**") entered into sale and purchase agreements to acquire an approximately 27.44% of the entire issued share capital of Zimi International (the "**Acquisition**"). The total consideration for the Acquisition was approximately US$102.84 million, out of which approximately US$77.06 million was settled by way of issue and allotment of 54,379,044 consideration Shares and the remaining balance of approximately US$25.78 million was settled in cash. Further details of the Acquisition can be found in the announcement of the Company published on May 21, 2020.

Save as disclosed above, during the Reporting Period, we did not conduct any material acquisitions or disposals of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Employee and Remuneration Policy

As of December 31, 2020, we had 22,074 full-time employees, 20,418 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. We expect to continue to increase our headcount in mainland China and our key target global markets. As of December 31, 2020, our research and development personnel, totaling 10,401 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, 2020, 15,363 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the Reporting Period were RMB9,914.5 million, representing an increase of 19.4% from the year ended December 31, 2019 of RMB8,304.9 million.

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, 2020, we pledged a restricted deposit of RMB3,625.3 million, compared with RMB3,257.4 million as of September 30, 2020. We also had secured certain construction in progress and land use right for borrowings.

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2020 and September 30, 2020.

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.

Share Capital and Shares Issued

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 independent placees and, on December 9, 2020, the Company allotted and issued 1,000,000,000 subscription shares at HK$23.70 per subscription share under the general mandate to Smart Mobile Holdings Limited (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.

Details of movements in the share capital of the Company for the Reporting Period and details of the Shares issued during the Reporting Period are set out in Note 25 to the consolidated financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 11(a) 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 14 to the consolidated financial statements.

DIRECTOR'S REPORT

Bank Loans and Borrowings

Particulars of bank loans and other borrowings of the Group as of December 31, 2020 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 33 to the consolidated financial statements.

Donation

During the Reporting Period, the Group made charitable donations of approximately RMB40.3 million.

Issuance of Debt Securities

On April 2, 2020, the Company issued Panda bonds in the Chinese interbank bond market in the amount of RMB1 billion with a maturity date of 365 days and a coupon rate of 2.78%.

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.

Five-Year Financial Summary

A summary of the condensed consolidated results and financial positions of the Group is set out on page 10 of this annual report.

Reserves

As of December 31, 2020, the Company had distributable reserves amounting to RMB62,660.8 million.

Details of the movements in the reserves of the Company during the Reporting Period are set out in Note 40(b) to the consolidated financial statements.

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

During the Reporting Period, the Company repurchased a total of 48,410,000 Class B Shares (the "**Shares Repurchased**") of the Company on the Stock Exchange at an aggregate consideration (including transaction cost) of approximately HK$499,541,868. Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased	Price paid per share Highest (HK$)	Price paid per share Lowest (HK$)	Aggregate Consideration (HK$)
April	48,410,000	10.52	10.12	499,541,868
Total	48,410,000			499,541,868

As at the Latest Practicable Date, the number of Class B Shares in issue was reduced by 48,410,000 as a result of the cancellation of the Shares Repurchased. Upon cancellation of the Shares Repurchased, the weighted voting rights ("**WVR**") beneficiaries of the Company, simultaneously reduced their WVR in the Company proportionately by way of converting their Class A Shares into Class B Shares on a one-to-one ratio pursuant to 8A.21 of the Listing Rules, such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under 8A.13 and 8A.15 of the Listing Rules.

The Shares Repurchased in April 2020 were subsequently cancelled on May 25, 2020. A total of 13,084,284 Class A Shares were converted into Class B Shares on a one-to-one ratio on May 25, 2020, of which Lei Jun, through Smart Mobile Holdings Limited, converted 8,514,521 Class A Shares and Lin Bin converted 4,569,763 Class A Shares. A total of 1,802,000,000 Class A Shares were converted into Class B Shares on a one-to-one ratio on November 27, 2020 by Lin Bin.

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.

Share Option Schemes

The Company has adopted two share options schemes, namely the Pre-IPO ESOP and the Post-IPO Share Option Scheme. Each of 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.

DIRECTOR'S REPORT

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, and 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.

(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).

(d) Maximum entitlement of each participant

There is no maximum entitlement of each participant.

(e) Option 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 nonforfeitable.

(f) **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.

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

The term of the Pre-IPO ESOP commenced on August 24, 2012 and will expire on the tenth anniversary of the above starting date.

As of December 31, 2020, the Company has conditionally granted share options and RSUs to eligible participants pursuant to the Pre-IPO ESOP, entitling the holders to acquire an aggregate of 491,799,970 outstanding Class B Shares. Pre-IPO ESOP exercised during the Reporting Period was 184,201,077 Class B Shares. Except for Chew Shou Zi (who has resigned as an executive Director of the Company with effect from March 24, 2021), no share options and RSUs had been granted to the Directors and other connected persons during the Reporting Period. No further option could be granted under the Pre-IPO ESOP after the Listing.

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				
Grantees	Dates of grant	Vesting period	Outstanding as of January 1, 2020	Cancelled/ Lapsed during the year	Exercised during the year	Outstanding as of December 31, 2020	Exercise price (US$)
Chew Shou Zi	August 1, 2015 January 1, 2018	5–10 years	25,423,251	–	(6,912,210)	18,511,041	0–0.102
7,125 grantees in aggregate	Between April 1, 2010 to June 14, 2018	1–10 years	674,259,796	(23,682,000)	(177,288,867)	473,288,929	0–0.34
Total			699,683,047	(23,682,000)	(184,201,077)	491,799,970	

Further details of the Pre-IPO ESOP are set out in Note 28 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.

(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, 2020, 227,250,000 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 1,344,594,311 Class B Shares, representing approximately 5.33% 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 in aggregate	Dates of grant	Vesting period	Outstanding as of January 1, 2020	Granted during the year	Cancelled/ Lapsed during the year	Exercised during the year	Outstanding as of December 31, 2020	Exercise price (HK$)
1	July 2, 2020	4 years	–	3,000,000	–	–	3,000,000	13.60
7	September 4, 2020	4-10 years	–	218,000,000	–	–	218,000,000	24.50
1	October 9, 2020	4 years	–	6,250,000	–	–	6,250,000	21.04
Total			–	227,250,000	–	–	227,250,000	

Further details of the Post-IPO Share Option Scheme are set out in Note 28 to the consolidated financial statements.

3. XMF Share Option Schemes

Unless otherwise defined below, terms used in this sub-section shall have the same meaning as those defined in the section headed "Definitions":

"XMF Board"	the board of directors of Xiaomi Finance (or if Xiaomi Finance has only a sole director, that director) or a committee thereof duly appointed for the purpose of administering the XMF Share Option Schemes
"XMF Share Options Schemes"	XMF Share Options Scheme I and XMF Share Options Scheme II
"XMF Shares"	ordinary share(s) in the share capital of Xiaomi Finance of nominal value of US$0.0001, or if there has been a subsequent sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of Xiaomi Finance, the shares in the ordinary share capital of Xiaomi Finance resulting from such sub-division, reduction, consolidation, reclassification or reconstruction
"XMF Subscription Price"	The price per XMF Share at which a grantee may subscribe for XMF Shares on the exercise of an option under the XMF Share Option Schemes

Details	XMF Share Option Scheme I	XMF Share Option Scheme II
1. Purposes	To provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders.	To provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders.
2. Eligible participants	Any directors and employees of any member of Xiaomi Finance Group (including nominees and/or trustees of any employee benefit trusts established for them) or any associates as the XMF Board determines.	Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Xiaomi Finance Group or any of the Xiaomi Finance Group's affiliates as the XMF Board or its delegates determines.
3. Maximum number of shares available for issue	The overall limit on the number of XMF Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the XMF Share Option Scheme I at any time shall not exceed 42,070,000 XMF Shares subject to any adjustments for share subdivisions or other dilutive issuances.	The maximum number of XMF shares represented by the options to be issued under the XMF Share Option Schemes shall be 150,000,000 XMF Shares.
4. Maximum entitlement of each participant	There is no maximum entitlement of each participant.	There is no maximum entitlement of a grantee, save that no options shall be granted to Lei Jun (or entities controlled by him) if such grant would result in Lei Jun's effective interest in Xiaomi Finance exceeding 28.0467% (being the effective equity interest of Lei Jun in the share capital of our Company on the Listing Date).

DIRECTOR'S REPORT

Details	XMF Share Option Scheme I	XMF Share Option Scheme II
5. Option period	An option may be exercised in accordance with the terms at any time during a period to be determined and notified by the XMF Board to each grantee at the time of grant, which shall end not later than 20 years from the date of grant of the option.	An option may, subject to the rules of the XMF Share Option Scheme II and 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 Xiaomi Finance in such form as the XMF Board may from time to time determine stating that the option is thereby exercised and the number of XMF Shares in respect of which it is exercised. The XMF Board has the authority to determine and to include in a grant offer letter the minimum period for which an option must be held before it can vest. The XMF Share Option Scheme II does not specify any minimum holding period.

Details	XMF Share Option Scheme I	XMF Share Option Scheme II
6. XMF Subscription Price	The XMF Subscription Price shall be determined by the XMF Board and shall not be less than the per XMF Share valuation based on the most recent appraised value of Xiaomi Finance prior to the adoption of the scheme, which is RMB3.8325 per XMF Share.	The XMF Subscription Price shall not be less than the nominal value of a XMF Share or the per XMF Share valuation based on the most recent appraised value of Xiaomi Finance prior to the Listing Date, which is RMB3.8325 per XMF Share. 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 grant offer letter comprising acceptance of the offer duly signed by the grantee with the number of XMF Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of Xiaomi Finance of HK$1.00 by way of consideration for the grant thereof, which must be received by Xiaomi Finance within 20 business days from the date on which the grant offer letter is delivered to the grantee.
7. Remaining life of the scheme	It will remain in force from June 17, 2018 until July 9, 2018, both dates inclusive. No further options will be offered or granted after the Listing Date.	It will remain valid and effective for the period of 10 years starting from the Listing Date.

DIRECTOR'S REPORT

As of December 31, 2020, there were a total of 42,070,000 outstanding share options granted under the XMF Share Option Scheme I. Details of movements of share options granted under the XMF Share Option Scheme I during the Reporting Period are as follows:

Name	Date of grant	Option period	Number of XMF Shares represented by the options granted	Number of options exercised during the year	Numbers of options as of December 31, 2020	Subscription price (RMB)
Lei Jun	June 17, 2018	20 years from the date of grant	42,070,000	–	42,070,000	3.8325

As of December 31, 2020, no options had been granted or agreed to be granted pursuant to the XMF Share Option Scheme II since its adoption. The total number of XMF Shares available for grant under the XMF Share Option Scheme II was 107,930,000 XMF Shares, representing 107.93% of the issued share capital of Xiaomi Finance as at the Latest Practicable Date and 43.17% of the issued share capital of Xiaomi Finance assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised.

4. Pinecone Share Option Schemes

Unless otherwise defined below, terms used in this sub-section shall have the same meaning as those defined in the section headed "Definitions":

"Pinecone Board"	the board of directors of Pinecone International
"Pinecone Group"	Pinecone International, its subsidiaries and consolidated affiliated entities
"Pinecone Options"	share options granted under the Pinecone Share Option Scheme I
"Pinecone Share Awards"	restricted or unrestricted share awards granted under the Pinecone Share Option Scheme I
"Pinecone Ordinary Shares"	ordinary share(s) in the share capital of Pinecone International of nominal value of US$0.0001
"Pinecone Subscription Price"	The price per Pinecone Ordinary Share at which a grantee may subscribe for Pinecone Ordinary Shares on the exercise of an option under the Pinecone Share Option Scheme II

Details	Pinecone Share Option Scheme I	Pinecone Share Option Scheme II
1. Purposes	To promote the success of the Pinecone International and the interests of its shareholders by providing a means through which the Pinecone International may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of awarded recipients with those of Pinecone International's shareholders generally.	To provide selected participants with the opportunity to acquire proprietary interests in Pinecone International and to encourage selected participants to work towards enhancing the value of Pinecone International and its shares for the benefit of Pinecone International and its shareholders, including our Company, as a whole.
2. Eligible participants	Any officer (whether or not a director) or employee, any director of Pinecone Group, or any individual consultant or advisor who renders or has rendered bona fide services (with certain exceptions) to Pinecone Group as one or more committees appointed by the Pinecone Board determine. Selected eligible participants may be granted awards in the form of Pinecone Options or Pinecone Share Awards.	Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Pinecone Group or any affiliate as the Pinecone Board or its delegates determines.

DIRECTOR'S REPORT

Details	Pinecone Share Option Scheme I	Pinecone Share Option Scheme II
3. Maximum number of shares available for issue	The total number of underlying shares which may be issued upon exercise of all options granted pursuant to the Pinecone Share Option Scheme I is 9,532,868 Pinecone Ordinary Shares.	The total number of shares that may be issued upon exercise of all options to be granted under the Pinecone Share Option Scheme II and any other schemes is 2,467,132 Pinecone Ordinary Shares. The overall limit on the number of Pinecone Ordinary Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pinecone Share Option Scheme II and any other schemes at any time must not exceed 48% of the Pinecone Ordinary Shares in issue from time to time.
4. Maximum entitlement of each participant	There is no maximum entitlement of each participant.	The total number of Pinecone Ordinary Shares issued and to be issued upon exercise of the options granted and to be granted under Pinecone Share Option Scheme II and other share option scheme(s) of Pinecone International to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1.0% of the total number of Pinecone Ordinary Shares in issue.

Details	Pinecone Share Option Scheme I	Pinecone Share Option Scheme II
5. Option period	A Pinecone Option may be exercised only to the extent that it is vested and exercisable, subject to the vesting and exercisability provisions as determined by the board of Pinecone International, provided the term of any Pinecone Option granted shall not exceed ten years. A Pinecone Share Award shall either vest or be repurchased by the Company as provided by the Pinecone Share Option Scheme I, not more than 10 years after the date of grant.	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 Pinecone International in such form as the board of Pinecone International may from time to time determine, stating that the option is thereby exercised and the number of shares in respect of which it is exercised. The Pinecone Board has the authority to determine and to include in a grant offer letter the minimum period for which an option must be held before it can vest. The Pinecone Share Option Scheme II does not specify any minimum holding period.

DIRECTOR'S REPORT

Details	Pinecone Share Option Scheme I	Pinecone Share Option Scheme II
6. Exercise Price	The exercise price must not be lower than the par value of the underlying Pinecone Ordinary Share, and in certain circumstances must not be lower than defined multiples of the fair market value of the underlying Pinecone Ordinary Shares. The Pinecone Board will determine the purchase price per Pinecone Ordinary Share covered by each Pinecone Share Award at the time of grant of the Pinecone Award. In no case will such purchase price be less than the par value of the Pinecone Ordinary Shares.	The Pinecone Subscription Price shall be determined by the Pinecone Board in relation to each option at the time of grant and specify the Pinecone Subscription Price in the grant offer letter. 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 grant offer letter comprising acceptance of the offer duly signed by the grantee with the number of Pinecone Ordinary Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of Pinecone International of HK$1.00 by way of consideration for the grant thereof, which must be received by Pinecone International within 20 business days from the date on which the grant offer letter is delivered to the grantee.
7. Remaining life of the scheme	It commenced on July 30, 2015 and will expire on the tenth anniversary thereof.	It shall be valid and effective for the period of 10 years commencing July 9, 2018.

As of December 31, 2020, there were 56,706 outstanding Pinecone Options granted under the Pinecone Share Option Scheme I. The aggregate number of underlying Pinecone Ordinary Shares pursuant to the Pinecone Options granted is 9,532,868 Pinecone Ordinary Shares.

Details of movements of Pinecone Options under the Pinecone Share Option Scheme I during the Reporting Period are as follows:

			Number of share options			
Grantees in aggregate	Date of grant	Vesting period	Outstanding as of January 1, 2020	Cancelled/ Lapsed during the Year	Outstanding as of December 31, 2020	Exercise price (US$)
177	Between May 18, 2015 to June 8, 2018	4 years	69,307	(12,601)	56,706	0.0001 to 1.0377

As of December 31, 2020, no options under the Pinecone Share Option Scheme II had been granted or agreed to be granted since its adoption. The total number of Pinecone Ordinary Shares available for grant under the Pinecone Share Option Scheme II was 2,467,132 Pinecone Ordinary Shares, representing 9.87% of the issued share capital of Pinecone International as at the Latest Practicable Date.

DIRECTOR'S REPORT

Share Award Scheme

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

1. Purpose

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 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.

2. 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.

3. 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.

4. Maximum entitlement of each participant

There is no maximum entitlement of each participant.

5. 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.

6. 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.

7. 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.

DIRECTOR'S REPORT

8. 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.

During the Reporting Period, a total of 137,947,024 Award Shares had been granted under the Share Award Scheme, all of which were granted to third parties independent of the Company and its connected persons. Details of the Award Shares granted under the Share Award Scheme and their movements during the Reporting Period are as follows:

			Number of Award Shares					
	Grantees in aggregate	Date of grant	Held at January 1, 2020	Granted during the year	Exercised during the year	Transferred to Share Scheme Trust during the year	Lapsed during the year	Held at December 31, 2020
	1,646	January 6, 2020	–	48,925,550	–	–	(4,329,033)	44,596,517
	1,849	April 1, 2020	–	36,739,975	–	–	(2,358,203)	34,381,772
	609	July 2, 2020	–	23,609,094	–	–	(2,966,417)	20,642,677
	3	September 4, 2020	–	18,000,000	–	–	–	18,000,000
	579	October 10, 2020	–	10,672,405	–	–	(409,051)	10,263,354
Total	4,686			137,947,024	–	–	(10,062,704)	127,884,320

Further details of movements in the Share Award Scheme are set out in Note 28 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
Chew Shou Zi *(resigned from the Board with effect from March 24, 2021)*
Liu De *(appointed to the Board with effect from March 24, 2021)*

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 51, is an executive Director, the Founder, the Chairman and the CEO of the Company. He is also a member of the Remuneration Committee. Lei Jun is responsible for the Company's overall corporate 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.

DIRECTOR'S REPORT

Lei Jun is a renowned angel investor in mainland China. Lei Jun joined Kingsoft Corporation Limited (SEHK 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 July 2011 to March 2018, Lei Jun was the chairman of Cheetah Mobile Inc. (NYSE ticker: CMCM). From July 2011 to August 2016, Lei Jun was the chairman of JOYY Inc. (NASDAQ ticker: YY). 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 April 2015, Lei Jun has been the chairman of the board of Kingsoft Cloud Holdings Limited (NASDAQ ticker: KC).

Lei Jun received a Bachelor's degree in Computer Science from Wuhan University (武漢大學) on July 1, 1991. He has been a member of the board of Wuhan University since November 2003.

Lei Jun was elected as one of the 2017 Top 10 Economic Personages of China, and one of 100 outstanding private entrepreneurs at the 40th anniversary of the China's reform and opening-up. In 2020, Lei Jun was honored with title of "National Advanced Individual of Private Economy Fighting against COVID-19" and title of "Beijing Model Worker".

Lin Bin (林斌), aged 53, is an executive Director, a Co-founder and Vice Chairman. 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 47, is an executive Director, a Co-Founder, Partner, Senior Vice President and Head of Organization 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 48, 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) 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. From September 2005 to April 2020, Liu Qin served as a director of Xunlei Limited (NASDAQ ticker: XNET). 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 director of XPeng Inc. (NYSE ticker: XPEV) since February 2018 and was determined by the board of directors to be an independent director of XPeng Inc. in August 2020.

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 63, has served as an independent non-executive Director since June 2018. He also currently serves as the chairman of both the Remuneration Committee and the Corporate Governance Committee, and a member of the Audit Committee. Chen Dongsheng has served as the chairman of 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**") since July 1996. He is currently the 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.

DIRECTOR'S REPORT

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 on July 30, 1983, and a PhD in Political Economics on June 30, 1996, both from Wuhan University (武漢大學).

Wong Shun Tak (王舜德), aged 60, 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 is currently an independent non-executive director of Airstar Bank Limited, a subsidiary of the Company.

Wong Shun Tak served as vice president of finance and financial 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 67, is an independent non-executive Director, the chairman of the Nomination Committee and a member of the Corporate Governance Committee. He join 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 the chairman of the Citizens Advisory Committee on Community Relations of the Independent Commission Against Corruption (ICAC). He also serves as a member of the Advisory Committee on Corruption of the ICAC and the InnoHK Steering Committee. Additionally, he has been appointed a Non-official Justice of the Peace and a member of the Chinese People's Political Consultative Conference since 2010 and 2013 respectively. 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 served as CEO of AMTD Foundation since July 2019 and as a director of China Association (H.K.) for Science and Society, Ltd. since 2020. 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 is currently an independent non-executive director of Airstar Bank Limited, a subsidiary of the Company. He is also an independent non-executive director of Gold Peak Industries (Holdings) Limited (SEHK Stock Code: 40), a non-executive director of Freetech Road Recycling Technology (Holdings) Limited (SEHK Stock Code: 6888) and an independent non-executive director of GP Industries Limited (SGX Stock Code: G20).

DIRECTOR'S REPORT

Biographical Details of Senior Management

The biographical details of the senior management of the Company who held office during the Reporting Period and up to the Latest Practicable Date are set out below:

Chang Cheng (常程), aged 49, is a Vice President and is responsible for the Group's smartphone product planning. Prior to joining the Group in January 2020, Chang Cheng served as vice president of Lenovo Group Limited (SEHK Stock Code: 992) since July 2011.

Chang Cheng received a Bachelor's degree in Mathematics from Beijing Normal University (北京師範大學) in July 1993 and a PhD in Engineering from Beihang University (previously known as Beijing University of Aeronautics and Astronautics) (北京航空航天大學) in July 2000.

Dr. Cui Baoqiu (崔寶秋), aged 51, is a Vice President and the President of Qinghe University. He has over 20 years of experience in software and Internet development and management. Prior to his current roles, Dr. Cui was the Chairman of Xiaomi's Technical Committee and Vice President and Chief Architect of the AI and Cloud Platform, a team which he founded and led for over six years. Prior to joining the Group in June 2012, Dr. Cui was Principal Engineer of LinkedIn from 2010 to 2012. From 2006 to 2010, Dr. Cui worked as Principal Engineer on the Yahoo Search Technology team. From 2000 to 2006, Dr. Cui was a Senior Engineer and Senior R&D Manager at IBM.

Dr. Cui obtained a PhD degree in Computer Science from the State University of New York at Stony Brook in 2000. He received Master's and Bachelor's degrees in Computer Science from Wuhan University in 1994 and 1991 respectively.

Gao Zi Guang (高自光), aged 39, is a Vice President and is responsible for new retail business of China Region. Prior to joining the Group in February 2014, Gao Zi Guang worked at Tencent Holdings Ltd. (SEHK Stock Code: 700) for 10 years, rising from basic engineer to T4 technical expert. He has rich experience in internet business, and has participated in and been in charge of QQ, SOSO, Tencent Microblog, Micro-Video and other products.

Gao Zi Guang received a Bachelor's degree in Computer Science and Technology from Xi'An Jiaotong University (西安交通大學) and a Master of Business Administration from Tsinghua University (清華大學).

He Yong (何勇), aged 47, is a Vice President and is responsible for the Group's regional strategic development, regional headquarters management, campus construction and engineering management. Prior to joining the Group in September 2018, He Yong served as deputy director of the Hubei Provincial Government Office in Beijing since February 2017, and has a wealth of management experience in government relationship, public affairs, regional strategic planning, major project organization and other related areas.

He Yong received a PhD in Economics from Wuhan University (武漢大學) in December 2018.

Hong Feng (洪鋒), aged 44, is a Co-founder and a Senior Vice President. He is currently the Chairman and Chief Executive Officer of Airstar Digital Technology, responsible for the development of finance businesses of the Group. Prior to joining the Group in December 2010, Hong Feng worked at Google Inc. from May 2005 to December 2010, where his responsibilities included product and engineering management. From May 2001 to May 2005 Hong Feng worked at Siebel Systems (which was subsequently acquired by Oracle America, Inc.) as lead software engineer.

Hong Feng received a Bachelor's degree in Computer and Applications from Shanghai Jiao Tong University (上海交通大學) in July 1999, and a Master of Science from Purdue University in May 2001.

Jain Manu Kumar, aged 40, is a Vice President and the President of Xiaomi India, responsible for the Group's business in India. Jain Manu Kumar joined the Group in May 2014 and led Xiaomi's business in India. Prior to January 2014, he had co-founded e-commerce company Jabong.com. Between June 2007 and December 2011, he worked at McKinsey & Company as an Engagement manager.

Jain Manu Kumar received a Bachelor's degree in Mechanical Engineering from Indian Institute of Technology (IIT), Delhi, in 2003 and a Post Graduate Diploma in Management and Master of Business Administration from Indian Institute of Management (IIM), Calcutta, in 2007.

Lam Sai Wai Alain (林世偉), aged 47, is a Vice President and the CFO of the Group, and the Deputy Chairman of Airstar Digital Technology. Prior to joining the Group in October 2020, Lam Sai Wai 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, Lam Sai Wai Alain worked at Morgan Stanley in various locations including London, New York, Menlo Park and Hong Kong. Alain has executed a number of U.S. IPOs including Kingsoft Cloud, XPeng and Pinduoduo, as well as Hong Kong IPOs including Alibaba, Xiaomi, and NetEase.

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

Lei Jun (雷軍), aged 51, is the Founder, the CEO of the Company, the Chairman and an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Lin Bin (林斌), aged 53, is a Co-founder, the Vice Chairman and 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

Liu De (劉德), aged 47, is a Co-Founder, Partner, Senior Vice President and Head of Organization Department 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 45, is a Partner, Senior Vice President, the President of China Region, the President of International Department and the General Manager of Redmi. He is responsible for sales management of the China Region and International Department, and the brand strategy, product planning, production, sales and marketing of Redmi. Before joining the Group in January 2019, Lu Weibing served as the chairman and president of Shenzhen Chenyee Technology Co., Ltd. (深圳市誠壹科技有限公司) from June 2017 to December 2018. From April 2010 to June 2017, Lu Weibing served as president at Shenzhen Gionee Communication Equipment Co., Ltd. (深圳市金立通信設備有限公司). Before this, Lu Weibing worked as general manager of the overseas department at Tianyu Communication Equipment Co., Ltd. (北京天宇朗通通信設備有限公司) from January 2008 to March 2010. Lu Weibing worked as general sales manager at KONKA Communication Co., Ltd. (康佳通信科技有限公司) from July 1998 to December 2007.

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.

Shang Jin (尚進), aged 44, is a Vice President, deputy minister of the Group Organization Department and Political Commissar of China Region, currently responsible for the General Management Department and Branch Frontline Operations of China Region. Before joining the Group in September 2014, Shang Jin co-founded and served as the chief executive officer of Beijing Kylin Culture Co., Ltd. (北京麒麟網文化股份有限公司) (formerly known as Beijing Kylin Information Technology Co, Ltd. (北京麒麟網信息科技有限公司)) between July 2007 and February 2014. Before this, Shang Jin served as vice general manager of Beijing AmazGame Age Internet Technology Co., Ltd. (北京暢遊天下網絡技術有限公司) (subsequently listed as part of the group of Changyou.com Limited, NASDAQ ticker: CYOU) since February 2005. From November 1999 to February 2005, Shang Jin worked at Kingsoft, including as project manager, technology officer and division deputy manager.

Shang Jin has served as a director of Ourpalm Co., Ltd (北京掌趣科技股份有限公司) (Shenzhen Stock Exchange Stock Code: 300315) since February 2018.

In 2010, Shang Jin was awarded Zhongguancun's leading talent and was named one of the top 10 most influential leaders in the gaming industry of the year in 2011. Shang Jin received a Bachelor's degree in Physics from Dalian University of Technology (大連理工) in July 1998.

Wang Chuan (王川), aged 51, is a Co-founder, Senior Vice President and Chief Strategy Officer of the Company. He is responsible for assisting the CEO of the Company in the management and overall planning of the Quality Committee, Technical Committee and Procurement Committee of the Group. Wang Chuan founded Beijing Leishitiandi Electron Technology Co., Ltd. (北京雷石天地電子技術有限公司) in June 2006 and served as the chairman. He has served as a director of iQIYI, Inc. (NASDAQ ticker: IQ) since November 2014.

Wang Chuan received a Bachelor's degree in Computer Science and Engineering from Beijing University of Technology (北京工業大學) in July 1993.

Wang Xiang (王翔), aged 59, as a Partner and the President of the Group, assists the CEO with Group operations. Wang Xiang joined the Group in July 2015 served as Senior Vice President of the Group, President of International Department, responsible for global expansion, IP strategy, and strategic partnership management. He became the President of the Group in November 2019.

Wang Xiang has more than 30 years of experience in the semiconductor and communications fields. Previously served as Senior Vice President of Qualcomm and President of Qualcomm Greater China, leading Qualcomm's business and operations in Greater China. Prior to that role, Xiang was Vice President of Qualcomm CDMA Technology, responsible for Qualcomm chipset business and customer services in China. Before joining Qualcomm, he held key positions in sales and marketing of world leading companies, including Motorola Inc., Lucent Technologies, Inc. and Agere Systems Inc.

Wang Xiang received a Bachelor's degree in Electronic Engineering from Beijing University of Technology (北京工業大學) in July 1984.

Yan Kesheng (顏克勝), aged 50, is a Vice President and the Chairman of the Quality Committee, General Manager of the Smart Manufacturing Department. He is responsible for quality control of all products and services and system-level solutions for smart manufacturing. Before joining the Group in October 2010, 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 Manufacturing and Repair 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.

DIRECTOR'S REPORT

Zeng Xuezhong (曾學忠), aged 45, 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), 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 communication 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).

Zhang Feng (張峰), aged 51, is a Partner, a Senior Vice President, Group Chief of Staff, the Chairman of the Group Procurement Committee and the General Manager of the Laptop Department, and responsible for the TV Department and Large Appliance Department. Zhang Feng has more than 20 years of experience in the smartphone and telecommunications industry. Prior to joining the Group in September 2016, Zhang Feng founded Jiangsu Zimi Electronic Technology Co., Ltd. (江蘇紫米電子技術有限公司). He held various positions in the Inventec group between September 1993 and February 2012, including as the director of research and development and the general manager of the Inventec group's Nanjing branch.

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.

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, and Chew Shou Zi has entered into a service contract with our Company on October 25, 2019. 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 after or until the third annual general meeting of the Company since the Listing Date, whichever is earlier (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 service contract or by either party giving to the other not less than one months' prior notice in writing. No annual director's fees are payable to the executive Directors under the current arrangement. Chew Shou Zi has resigned as an executive Director with effect from March 24, 2021.

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

   Liu Qin has entered into an appointment letter with our Company on June 19, 2018. The initial term for his appointment letters shall commence from the date of his appointment and shall continue for three years after or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (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 19, 2018, and Tong Wai Cheung Timothy has entered into an appointment letter with our Company on August 23, 2019. The initial term for their appointment letters shall be three years from the date of their appointment or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (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$500,000, 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, 2020, 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[6]	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares[1]
Lei Jun[2]	Beneficiary, founder and settlor of a Trust(L)	ARK Trust (Hong Kong) Limited	4,226,640,526 Class A Shares	90.06%
			2,443,898,616 Class B Shares	11.91%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited	4,226,640,526 Class A Shares	90.06%
			2,292,431,944 Class B Shares	11.18%
	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[3]	Trustee, beneficiary and settlor of a trust(L)	Apex Star FT LLC	93,438,272 Class B Shares	0.46%
	Beneficial owner(L)		30,347,523 Class B Shares	0.15%
	Interest in controlled corporations(L)	Apex Star LLC	466,447,815 Class A shares	9.94%
			1,749,000,000 Class B Shares	8.53%
	Interest in controlled corporations(L)	Bin Lin and Daisy Liu Family Foundation	60,686,600 Class B Shares	0.30%
Chew Shou Zi[4]	Beneficial owner(L)		137,497,277 Class B Shares	0.67%
	Trustee(L)	Tamarind Limited	31,488,959 Class B Shares	0.15%
Liu Qin[5]	Interest in controlled corporations(L)	Morningside China TMT Fund I, L.P.	196,903,974 Class B Shares	0.96%
	Interest in controlled corporations(L)	Morningside China TMT Fund II, L.P.	20,527,199 Class B Shares	0.10%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2020.

(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 4,226,640,526 Class A Shares and the 2,292,431,944 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.

(3) 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. Apex Star LLC and Bin Lin and Daisy Liu Family Foundation are controlled by Lin Bin. Accordingly, Lin Bin is deemed to be interested in 466,447,815 Class A shares and 1,749,000,000 Class B Shares held by Apex Star LLC and 60,686,600 Class B Shares held by Bin Lin and Daisy Liu Family Foundation under the SFO.

(4) Chew Shou Zi directly holds 18,986,236 Class B Shares and has interests in share options granted under Pre-IPO ESOP and Post-IPO Share Option Scheme to subscribe for 118,511,041 Class B Shares. Tamarind Limited is controlled by Shou Zi Chew 2019 Trust. Accordingly, Chew Shou Zi, as the trustee of Shou Zi Chew 2019 Trust, is deemed to be interested in the 31,488,959 Class B Shares held by Tamarind Limited under the SFO. Chew Shou Zi has resigned as an executive Directors with effect of March 24, 2021.

(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 the Shares in which TMT General Partner Ltd. is interested. TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P., which respectively controls Morningside China TMT Fund I, L.P. and Morningside China TMT Fund II, L.P. (the "**5Y Capital Funds**"). Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the 5Y Capital Funds have an interest.

(6) The letter "L" denotes the person's long position in the shares.

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%
	Interest in controlled corporation(L)	Zimi International Incorporation[4]	9.97%

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as of December 31, 2020.

(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, 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 4,226,640,526 Class A Shares and 2,292,431,944 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.

(4) As of December 31, 2020, the Company held 49.91% of the equity interest of Zimi International Incorporation, and Zimi International Incorporation is therefore an associated corporation of the Company. As of December 31, 2020, Lei Jun is ultimately interested in Zimi International Incorporation as to approximately 9.97%. Pursuant to the announcement made by the Company dated March 24, 2021, the Company has conditionally agreed to acquire 50.09% of the equity interest of Zimi International Incorporation. Upon completion of the acquisition, Zimi International Incorporation will become a wholly-owned subsidiary of the Company.

Save as disclosed above, as of December 31, 2020, 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 capital 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.

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, 2020, 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	4,226,640,526	90.06%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	4,226,640,526	90.06%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	4,226,640,526	90.06%
ARK Trust (Hong Kong) Limited[2]	Trustee	4,226,640,526	90.06%
Class B Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	2,292,431,944	11.18%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	2,351,653,574	11.47%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	2,351,653,574	11.47%
ARK Trust (Hong Kong) Limited[2]	Trustee	4,835,967,052	23.58%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2020.

(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 4,226,640,526 Class A Shares and the 2,292,431,944 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 2,392,068,436 Class B shares held by the trusts.

Save as disclosed above, as of December 31, 2020, 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.

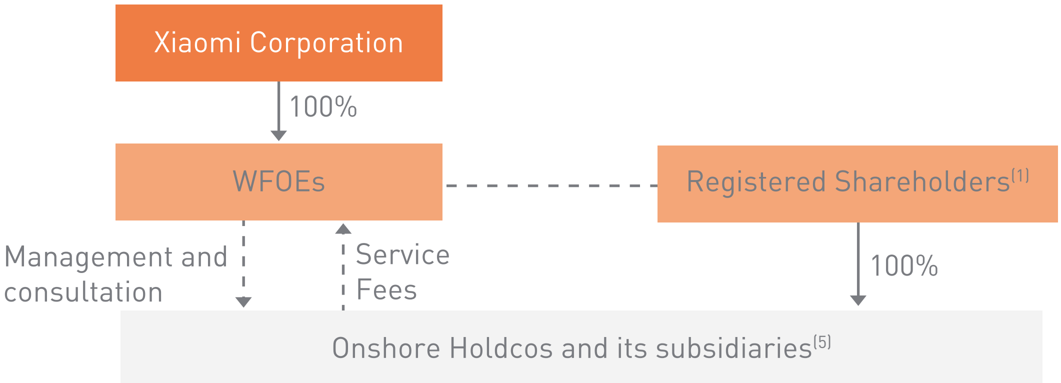
1. Contractual Arrangements

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, 2020:



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 (黎萬强) 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 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 (黎萬强) 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) (2020 Edition) (外商投資准入特別管理措施(負面清單) (2020 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, 2020, 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 RMB9,865 million for the Reporting Period, representing an increase by 38.1% from RMB7,145 million for the year ended December 31, 2019. For the Reporting Period, the revenue the Consolidated Affiliated Entities accounted for approximately 4.0% of the revenue of our Group (2019: 3.5%).

DIRECTOR'S REPORT

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) (2020 Edition) (外商投資准入特別管理措施（負面清單）（2020 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 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**"). For details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements — Qualification Requirements under the FITE Regulations" and "Contractual Arrangements — Development in Legislation on Foreign Investment in Mainland China" on pages 281 to 282 and pages 293 to 298 of the Prospectus. 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 hold 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.

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.

Requirement related to Contractual Arrangements (other than relevant foreign ownership restrictions) as of December 31, 2020

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 and February 6, 2016. 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, including provision of internet content services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. According to our consultation with the Ministry of Industry and Information Technology (the "**MIIT**") in March 2018, it confirms that there is no clear guidance about how a foreign investor could meet the Qualification Requirements, and it applies a relatively strict standard for identifying whether foreign investors meet the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Onshore Holdcos or any of our Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold any equity interest in enterprises which engage in the value-added telecommunications enterprises in China. For the purposes of meeting the Qualification Requirements, we are in the process of establishing and accumulating overseas operation experience, for example:

- we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas;
- Xiaomi Inc. has entered into an agreement with a third party in relation to the operation and management of the domain name www.mi.com/in/ for the purpose of promoting and selling our products and services in India; and
- we have registered a number of domain names overseas for the purpose of promoting our products and services.

In our consultation with the MIIT, the MIIT also confirmed that the above steps taken by us may be deemed to satisfy the Qualification Requirements if we follow the above steps continuously for a period of time and have accumulated the experience in providing the value-added telecommunications services in overseas markets, which is in accordance with the FITE Regulations.

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

DIRECTOR'S REPORT

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.

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.

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 Contractual Arrangements have not been approved by the Board;

(ii) nothing has come to their attention that causes the Auditor to believe that the Contractual Arrangements 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 2018 XMF Framework Agreement, (i) data sharing and collaboration; (ii) intellectual property licensing; (iii) provision of marketing services by the Xiaomi Finance Group to XM Group; (iv) provision of comprehensive support services by the Xiaomi Finance Group to XM Group and (v) provision of financial services by the Xiaomi Finance Group to XM Group are fully-exempted continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTOR'S REPORT

The annual cap and actual transaction amounts for the non-exempted continuing connected transactions under the 2018 XMF Framework Agreement for the Reporting Period are set out as follows:

No.	Transactions	Annual cap for the year ended December 31, 2020 (RMB million)	Actual transaction amounts for the year ended December 31, 2020 (RMB million)
1.	Supply of products by the XM Group to the Xiaomi Finance Group	**1,087**	**8**
2.	Provision of payment and settlement services by the Xiaomi Finance Group to the XM Group	**390**	**69**
3.	Provision of marketing services by the XM Group to the Xiaomi Finance Group	**828**	**44**
4.	Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group	**213**	**70**
5.	Provision of financial services by the XM Group to the Xiaomi Finance Group (excluding the XMF Restructuring Loans)	**14,550**	**3,264**

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.

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.

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 "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.

DIRECTOR'S REPORT

Major Customers and Suppliers

For the Reporting Period, the five largest customers of the Group accounted for approximately 18.9% of the Group's total revenues while the largest customer of the Group accounted for approximately 10.5% of the Group's total revenues. In addition, for the Reporting Period, the five largest suppliers of the Group accounted for approximately 24.5% of the Group's total purchase amounts while the largest supplier for the Reporting Period, accounted for approximately 7.6% 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.

As of December 31, 2020, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,226,640,526 Class A Shares, representing approximately 62.7% 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 466,447,815 Class A Shares, representing approximately 6.92% 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 wholly-owned by Lin Bin.

Class A Shares may be converted into Class B Shares on a one to one ratio. As of December 31, 2020, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 4,693,088,341 Class B Shares, representing approximately 22.9% of the total number of issued and outstanding Class B Shares or 18.6% 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 102 to 121 of this annual report.

DIRECTOR'S 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 122 to 212 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 Listing

The net proceeds received by the Company from the Listing were approximately HK$27,561.0 million. There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus and the Company had fully utilized the amount of the net proceeds in accordance with such intended purposes as of December 31, 2020.

As of December 31, 2020, the Group had utilized the net proceeds as set out in the table below:

	Net proceeds from Listing (HK$ million)	Unutilized amount as of December 31, 2019 (HK$ million)	Utilization as of December 31, 2020 (HK$ million)	Unutilized amount as of December 31, 2020 (HK$ million)
Research and development to develop core in-house products	8,268.3	—	8,268.3	—
Investments to expand and strengthen ecosystem	8,268.3	4,500.3	8,268.3	—
Global expansion	8,268.3	—	8,268.3	—
Working capital and other general corporate purposes	2,756.1	—	2,756.1	—
Total	**27,561.0**	**4,500.3**	**27,561.0**	**—**

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

On April 29, 2020, Xiaomi Best Time International Limited completed the issuance of the 2030 Notes, of which the net proceeds amounted to approximately US$589.9 million. The Company intends to use the net proceeds of the 2030 Notes primarily for (i) general corporate purposes and (ii) to repay existing borrowings. As of December 31, 2020, the Company had fully utilized the amount of the net proceeds of the issue of the 2030 Notes. There has been no change in the intended use of net proceeds as previously disclosed. For further details, please refer to the announcement of the Company dated April 20, 2020.

3. 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 intends to use the estimated net proceeds for (a) strengthening our working capital for business expansion; (b) investments to increase market share in key markets; (c) strategic ecosystem investments and (d) other general corporate purposes. As of December 31, 2020, approximately US$410.7 million of the net proceeds of the completion of the 2020 Placing and Subscription had been utilized and US$2.7 billion remained unutilized. There has been no change in the intended use of net proceeds as previously disclosed, and the Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within 2 years. For further details, please refer to the Company's announcement dated December 2, 2020.

4. 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 intends to use the estimated net proceeds for (a) strengthening our working capital for business expansion; (b) investments to increase market share in key markets; (c) strategic ecosystem investments and (d) other general corporate purposes. As of December 31, 2020, approximately US$117.8 million of the net proceeds of the issue of the 2027 Bonds had been utilized and US$771.8 million remained unutilized. There has been no change in the intended use of net proceeds as previously disclosed, and the Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within 2 years. For further details, please refer to the Company's announcement dated December 2, 2020.

DIRECTOR'S REPORT

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 control system of the Group, review and approve connected transactions and to advise the Board. As of December 31, 2020, 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 December 31, 2020, 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

On March 24, 2021, the Company entered into a share purchase agreement with shareholders of Zimi International Incorporation ("**Zimi**"), pursuant to which, the Company has conditionally agreed to acquire, and each shareholder of Zimi has conditionally agreed to sell 49,270,778 shares, representing an aggregate of 50.09% of the entire issued share capital of Zimi, at a total consideration of approximately US$204.73 million, which shall be satisfied (a) as to approximately US$176.28 million in cash; and (b) as to approximately US$28.45 million by the allotment and issue of 8,670,924 ordinary shares, credited as fully paid, by the Company. Upon closing of the acquisition, Zimi will become a wholly-owned subsidiary of the Group. As of the Latest Practicable Date, this transaction has not yet closed.

Save as disclosed above, there has been no other significant events that might affect the Group since the end of the Reporting Period and up to the Latest Practicable Date.

By order of the Board
Lei Jun
Chairman

Hong Kong, March 24, 2021

CORPORATE GOVERNANCE REPORT

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 A.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)*
Chew Shou Zi *(resigned from the Board with effect from March 24, 2021)*
Liu De *(appointed to the Board with effect from March 24, 2021)*

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.

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 of 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 A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and 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. 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 A.6.5 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
Chew Shou Zi	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, two Remuneration Committee meetings, one Nomination Committee meeting and an annual general meeting. The attendance records of each Director at the above 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	2020 Annual General Meeting
Lei Jun	4/4	—	—	—	2/2	1/1
Lin Bin	4/4	—	—	1/1	—	1/1
Chew Shou Zi	4/4	—	—	—	—	1/1
Liu Qin	4/4	4/4	—	—	—	1/1
Chen Dongsheng	4/4	4/4	2/2	1/1	2/2	0/1
Wong Shun Tak	4/4	4/4	2/2	1/1	2/2	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 2019 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, 2020.
- Reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2020.
- Reviewed the unaudited third quarterly results of the Group for the three and nine months ended September 30, 2020.
- 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.
- Reviewed the risk management and internal control systems of the Group.
- Oversees the risks undertaken by the Company.
- Oversees the Group's anti-money laundering system.
- 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 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. 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 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, shareholders' communication policy, procedures for nomination of director by shareholders, disclosure of information policy, connected transactions policy, whistle-blowing policy, dividend policy and other corporate governance policies.
- Reviewed the Company's compliance with the CG Code and the deviation(s) from code provision A.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 the Company's ESG Strategy 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 (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.

CORPORATE GOVERNANCE REPORT

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.

Nomination Committee

The Company has established the Nomination Committee 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 2020 annual general meeting of the Company.

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level 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 talents.

A Board diversity policy was adopted by the Company, pursuant to which the Nomination Committee is responsible for reviewing the Board composition by considering a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The Nomination Committee would discuss periodically and, where necessary, agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth.

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.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

The Company has also adopted a nomination policy for election of Directors. 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 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 grant of share awards to certain senior management of the Company.

CORPORATE GOVERNANCE REPORT

Pursuant to code provision B.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	6
HK$10,000,001 to HK$30,000,000	8
HK$30,000,001 to HK$100,000,000	4
HK$100,000,001 to HK$150,000,000	0
HK$150,000,001 to HK$15,000,000,000	0

Notes:

(1) Senior management as of December 31, 2020.

Further details of the remuneration for the Reporting Period are set out in Note 9 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.

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 it is important to establish and to continue to improve its risk management and internal control systems, and has strengthened internal control, internal audit, compliance and forensic 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 and Forensic teams, which hold a high degree of independence. They provide an evaluation on the effectiveness of the Company's risk management and internal control systems, and monitor management's continuous improvement over these areas.

The Forensic team is responsible for receiving whistle-blowing reports and investigating alleged fraudulent incidents.

The Internal Audit and Forensic teams directly report to the Audit Committee.

Risk Management Process:

All departments conduct internal control assessments regularly to identify risks that potentially impact the business of the Group.

Notes:

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

CORPORATE GOVERNANCE REPORT

The Internal Audit team is responsible for performing independent reviews of the adequacy and effectiveness of the risk management and internal control systems at least once every year. For important businesses, the Internal Audit team evaluates key risk items through risk survey questionnaires, management interviews, business process data analysis and other methods. The Internal Audit team examines key issues in relation to the accounting practices and all key internal controls, and provide 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. **Competition, regulation and technology innovation:**

   Uncertainties arising from global economic and trade environment and the ongoing COVID-19 pandemic made it more challenging for the Company to achieve its business goals, operational results and financial growth. Our products and services are provided in a highly competitive global market. The continuous expansion of official commercial use of 5G and the upgrading of artificial intelligence technology have continuously increased customer demand for innovative products and services. The Company's core competitiveness may be impaired by a slowdown in technological innovation.

   To maintain the growth of revenue, the Company implemented the Smartphone x AIoT strategy, continued to develop new technologies in various fields, and provided Internet services in growing number of overseas markets that better serve the local markets. The Company's Technology Committee set up the Million Dollar Technology Award to stimulate technological innovation. The Company also recruited top-tier scientists to enhance its research and development capabilities.

2. Compliance:

As the rules governing competition in China and global markets evolve and markets become more transparent, the Company is subject to various compliance requirements in areas including anti-corruption, antitrust, anti-competitive behavior, labor, export control, trade secret protection, and privacy. Any non-compliant action may affect our brand and reputation. Furthermore, violation of any laws and compliance requirements may lead to penalties and may severely affect our business operations. The Company may also be impacted by legal proceedings against us.

The Company has established a global compliance framework. During the Reporting Period, we optimized the Company's compliance organizational structures policies, operating mechanism, risk assessment, review and correction policy, and culture development. The Company revised the code of conduct applicable to all employees globally and set up protocol and implementation guidelines for major compliance areas to reduce relevant risks. The Company established an integrity and compliance platform that is open to employees, customers, business partners and investors. We revised the whistleblower system and also conducted regular compliance training sessions in important business regions including China, India, Europe and Russia.

3. Supply chain:

Our core products rely heavily on various suppliers who provide raw materials and components. In particular, for certain high-end products, the sources of certain core raw materials and components are limited. Sourcing from a single region or from a single vendor can happen as well. Products are subject to transportation delay or constrained, and subject to pricing inflation of components due to shortages or underlying commodity pricing 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.

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 globally. We continue to diversify supplier source to reduce the risks of uncertainty brought by single source. We expand the capacity of factories overseas like India and Indonesia, to enhance the efficiency of our supply chain, and to address the potential risks associated with having a single production base. We established 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.

CORPORATE GOVERNANCE REPORT

4. **Product and service quality:**

The quality of the company's products and services can seriously affect the user experience and damage the brand and reputation of the Company.

Our CEO described the Company's quality goals as "quality is the lifeline of Xiaomi". The Quality Committee of the Company coordinates the overall management of the quality. Various products and services, user experience and etc. are included in the scope of quality management. A unified management system was introduced at the Group level, and regulations were made in various aspects such as quality evaluation, code of conduct, incidents handling and review, and rewards. We have established an information system to assist quality control, which significantly improves the efficiency and effectiveness of the full-link quality assurance system. The company actively promotes the quality culture and conducts selection of product and service quality awards.

5. **Information security and privacy risk:**

The Company's business and trade secrets are highly dependent on information systems and data analysis. Information security incidents may impact the continuity of business operations. To achieve certain business functionalities and improve user experience, some of our products and services require user data. The 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. In China, scrutiny over these issues have been elevated to unprecedented heights. The management recognized that any non-compliant data collection, leakage or inappropriate handling of user data would lead to significant consequences on our 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 Technical 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.

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.

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 and reviews of the Group and 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	56,865
Non-audit services	31,475
Total	**88,340**

CORPORATE GOVERNANCE REPORT

Joint Company Secretaries

Chan Wing Ki, 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. Chan Wing Ki joined our Group in May 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, she had close to 10 years of legal and corporate governance experience, having worked as a solicitor at Allen & Overy, Davis Polk & Wardwell and Latham & Watkins LLP.

So Ka Man of Tricor Services Limited, an external service provider, has been engaged by the Company as the other joint company secretary to assist Chan Wing Ki. The primary contact person at the Company is Chan Wing Ki.

Steve Lin has resigned as joint company secretary with effect from February 26, 2021. During the Reporting Period, So Ka Man has taken the required number of hours of relevant professional trainings.

Communications with Shareholders and Investors

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 23, 2020. Notice of the meeting was sent to the Shareholders on April 27, 2020, at least 20 clear business days before the meeting. 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: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: ir@xiaomi.com

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.

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 Corporate Governance Committee reviews the shareholders' communication policy on a regular basis to ensure its effectiveness, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.

With respect to Code Provision E.1.5 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.

CORPORATE GOVERNANCE REPORT

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, there was no significant change in the memorandum and articles of association of the Company.

The Articles are 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 regarding corporate governance subsequent to the Reporting Period and up to the Latest Practicable Date that might affect the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. About the Report

This is the 3rd Environmental, Social and Governance (ESG) Report published by Xiaomi Corporation ("Xiaomi," the "Group," the "Company," "we"). This Report sets out to present, on an objective and fair basis, the ESG performance of Xiaomi Corporation and its subsidiaries in 2020. The Report was prepared in compliance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide (the "ESG Guide" or "the Guide") as depicted in Appendix 27 of *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 "Hong Kong Stock Exchange"), and in accordance with the Core Option of the GRI (Global Reporting Initiative) Sustainability Reporting Standards (GRI Standards). It is recommended that this Report is read in conjunction with the section titled "Corporate Governance Report" as contained in the Company's Annual Report.

In preparation of the Report, we strove to ensure that the information disclosed herein follow the four reporting principles, namely, materiality, quantitative, balance and consistency.

The reporting period of this Report is from January 1, 2020 to December 31, 2020 ("this year"). To enhance the comparability and completeness of the Report, part of the disclosure in this Report also covers other time periods.

The source of information and cases within this Report were mainly derived from the Company's statistical reports, relevant documents and internal communication documents in 2020. The Company 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.

This Report is published and available in both traditional Chinese and English. If there is any discrepancy between the texts, the Chinese version shall prevail for all purposes.

II. The United Nations Global Compact and Sustainable Development Goals

In 2020, Xiaomi joined the United Nations Global Compact (UNGC) and incorporated its 10 principles governing human rights, labor, environment, anti-corruption, and more into its corporate operations and strategies for sustainable development. The UNGC gives us a clear vision on sustainability, which contributes to the creation of a better world through corporate action. Also, the UNGC is a firm supporter of the Sustainable Development Goals (SDGs) adopted by the United Nations.

Xiaomi actively supports the SDGs. We prioritize the specific targets of the SDGs according to the unique characteristics of our business and the industry value chain. We focus on the core areas of "products, users, environment and society" when we implement a wide range of initiatives to fulfill the SDGs and our corporate responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SDGs	Xiaomi's 2020 Actions

Products

Core Strategy

- Our core strategy for the next decade: "Smartphone × AIoT"

Product Quality

- Obtained ISO9001 Quality Management System certification for our Smart Hardware department and our e-commerce platform Youpin
- Introduced digitalized quality management system
- Introduced policies on safety regulations, electromagnetic compatibility, ergonomics, energy efficiency, patent certification, and so forth

Technology Innovation

- Invested RMB9.3 billion in R&D in 2020
- Named as a *Top 100 Global Innovator by Clarivate Analystics* for three consecutive years
- Ranked 24th in the "Top 50 Global Innovators 2020" by the Boston Consulting Group
- Recognized as one of the "50 Smartest Companies (TR50)" by MIT Technology Review
- Became the first Chinese company among the top five applicants in the International Design System (Hague System)
- Awarded a total of 19,460 patents

Standardization

- Attended more than 200 meetings of international standardization organizations and submitted more than 100 proposals
- Attended more than 300 meetings in domestic standardization conferences
- Involved in the development of more than 100 international, national, industry and group standards

Smart Manufacturing

- Approximately 92% of the manufacturing equipment at the smart factory was developed by Xiaomi or its investee companies
- Smart factory achieved automation level of approximately 63% since inception
- Launched smart manufacturing platform with more than 100 companies across the value chain

SDGs	Xiaomi's 2020 Actions

10 REDUCED INEQUALITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

17 PARTNERSHIPS FOR THE GOALS

Users

User Experience

- Over 3,200 Mi Homes and retail stores in mainland China
- 656 in-store service centers nationwide
- 1,553 stores nationwide to provide door-to-door repair services
- Introduced "1-hour quick repair" and "2-hour response" services
- Trained and certified all after-sales specialists
- Held more than 200 online and 100 offline trainings during the year, with more than 10,000 participants

Privacy Protection

- Introduced Xiaomi's Privacy Brand
- Obtained ISO27001 Information Security Management System Certification
- Obtained ISO27701 Privacy Information Management System Certification
- Granted Privacy Seal of TrustArc certification
- Launched three innovative privacy protection features on the MIUI 12 operating system

Mi Fan Culture

- Revamped Mi Community, with over 120 million cumulative users and over 20 million monthly active users
- Established product proposal and feedback channels and received over 40 million user responses
- Undertook more than 100 internal testing projects, attracting more than 4 million users
- Held 12 "Internal Roast" and 45 "Weibo MIUI Leader Online" activities
- Launched a series of global Mi Fan activities such as "Mi Fan Story," "Mi Renovation," "Mi Explorers" and "ShotByMi Photo Contest"

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SDGs	Xiaomi's 2020 Actions

Environment

Green Operation

- Obtained ISO14001 Environmental Management System Certification
- Achieved the Two-star Grade of "Beijing Green Building Standards"
- Saved approximately 1,406,874 kilowatt-hours (kWh) throughout the year, and reduced greenhouse gas emissions by 1,001.6 tons of carbon dioxide equivalent
- 3,608 tons of hot water were heated by solar boiler systems
- Used water-saving facilities and promoted the use of reclaimed water
- Disposed of 1,882.5 tons of kitchen waste with non-hazardous treatment during the year
- Provided paper bags across all Mi Homes in mainland China
- Granted subsidies for a total of 30,572 orders through government energy-saving funds during the year

Green Products and Packaging

- Introduced energy-saving measures throughout product life cycles
- Utilized reduced packaging solutions in 95% of Xiaomi's self-labeled products, reaching a product-to-package ratio up to 80%
- Reduced power consumption by an average of 25% on system applications in MIUI 12.5
- Reduced plastics packages by up to 60% in weight, starting with smartphone packaging in Europe
- Recycled 127,271 smartphones, which reduced electronic waste by approximately 25 tons
- Promoted the reuse of cartons, saving a total of approximately 320,000 boxes and 10,000 wooden pallets throughout the year
- Complied with the energy efficiency standards of the US Department of Energy (DOE), California Energy Efficiency Requirements (CEC), China Energy Label (CEL) and EU Energy-related Products (ErP)

SDGs / Xiaomi's 2020 Actions

Society

Employee Care

- Employ a total of 22,074 people across four continents and 20 countries/regions
- Recruited 7,885 people, including 2,210 fresh graduates in 2020
- Implemented an appeal mechanism on performance review results
- Developed and implemented the *International Dispatched Employees Tax Balance Policy of Xiaomi Corporation*
- Awarded 137,947,024 restricted stock units through 4,686 issues to selected participants in 2020
- Obtained ISO45001 Occupational Health and Safety Management System certification
- Introduced 468 online courses and 103 learning projects on Qinghe University's Learning Platform, with more than 12,000 people who have taken courses online

Win-win Cooperation

- A total of 31 Xiaomi ecosystem companies have been listed
- More than RMB90 billion of credit support provided to over 3,000 companies by Airstar Digital Technology, reducing financing costs by an average of approximately 2% for small- and medium-sized enterprises

Social Responsibility Exploration

- Initiated projects in accessibility, disaster warning and elderly care
- Expanded the scope of earthquake warning to more than 100 cities across China in 2020
- Issued 29 warnings on earthquakes above 4.0 magnitude and 9,445,961 alerts were sent to users through the earthquake warning system
- Entered the age of accessibility 2.0, with four major upgrades in accessibility development
- Provided 185 jobs for the disabled in 2020
- Built more comprehensive support for the disabled, with the launch of an official Xiaomi webpage for the disabled

Fight against COVID-19

- Xiaomi Corporation, our employees and Beijing Xiaomi Foundation donated over 3 million pieces of protective equipment worth over RMB80 million to more than 40 countries and regions
- As of July 15, 2020, Beijing Xiaomi Foundation received monetary donations worth over RMB27 million, of which more than RMB12 million were from our executives and employees
- The 11th *China Charity Award* awarded to Mr. Lei Jun, the founder, chairman and CEO of Xiaomi Corporation and board member of Beijing Xiaomi Foundation, by the Ministry of Civil Affairs

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

III. ESG Governance and Strategy

In 2020, Xiaomi established an ESG governance structure at all levels of the Company including the Board of Directors, senior management and ESG execution team. The Board of Directors has agreed that the Corporate Governance Committee ("the CGC"), on behalf of the Board of Directors, will oversee ESG issues at Xiaomi. The ESG team and managers of each business unit across the Company constitute the ESG executive managers to coordinate resources for effective enforcement of ESG policies. At the working level, the ESG team works with relevant teams to implement the Group's ESG strategy and policies. The CGC regularly discusses ESG topics with the board and provides guidelines and recommendations to the ESG working group based on actual performance. Meanwhile, ESG executive managers have standardized relevant workflows. The ESG executive managers report to the CGC the current progress, proposals and future targets.

We fully understand that sound ESG governance is essential for Xiaomi to achieve the SDGs, and effective ESG strategies are vital for guiding our ESG direction. We perform appropriate ESG risk assessment and proactively improve our business operations accordingly. We promote our ESG framework to all our stakeholders, including upstream and downstream business partners, to secure long-term sustainability. We also integrated sustainability concepts into our products to increase awareness among our customers and upstream and downstream business partners to further build sustainability into our brand. This year, we implemented ESG strategies in areas of green operation, quality, technological innovation, employees and employment, users, business ethics, value chain, and social contribution.

The outbreak of COVID-19 in 2020 has had a profound impact on society. As we face this unprecedented pandemic and its prevailing uncertainties, sound ESG governance can ensure stable operations and prompt and proper response during a crisis, allowing us to seize opportunities at the right time. Xiaomi has demonstrated its ability to thrive and achieve steady growth in a challenging environment, with joint efforts from its CGC and business units. Balanced with the rights and interests of our important stakeholders, we have made active contributions in the global fight against the pandemic and helped the industry value chain to recover.

We will continue to improve our ESG governance. We will work with all stakeholders to achieve our mission to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.

IV. Stakeholder Engagement

Xiaomi actively responds to expectations from its stakeholders. To that end, we identify and engage with stakeholders who are relevant to our business, including our customers and users, investors, employees, suppliers and partners, government and other regulatory agencies, media and NGOs, and communities. We have established multiple effective communication channels for our stakeholders in order to achieve active stakeholder engagement.

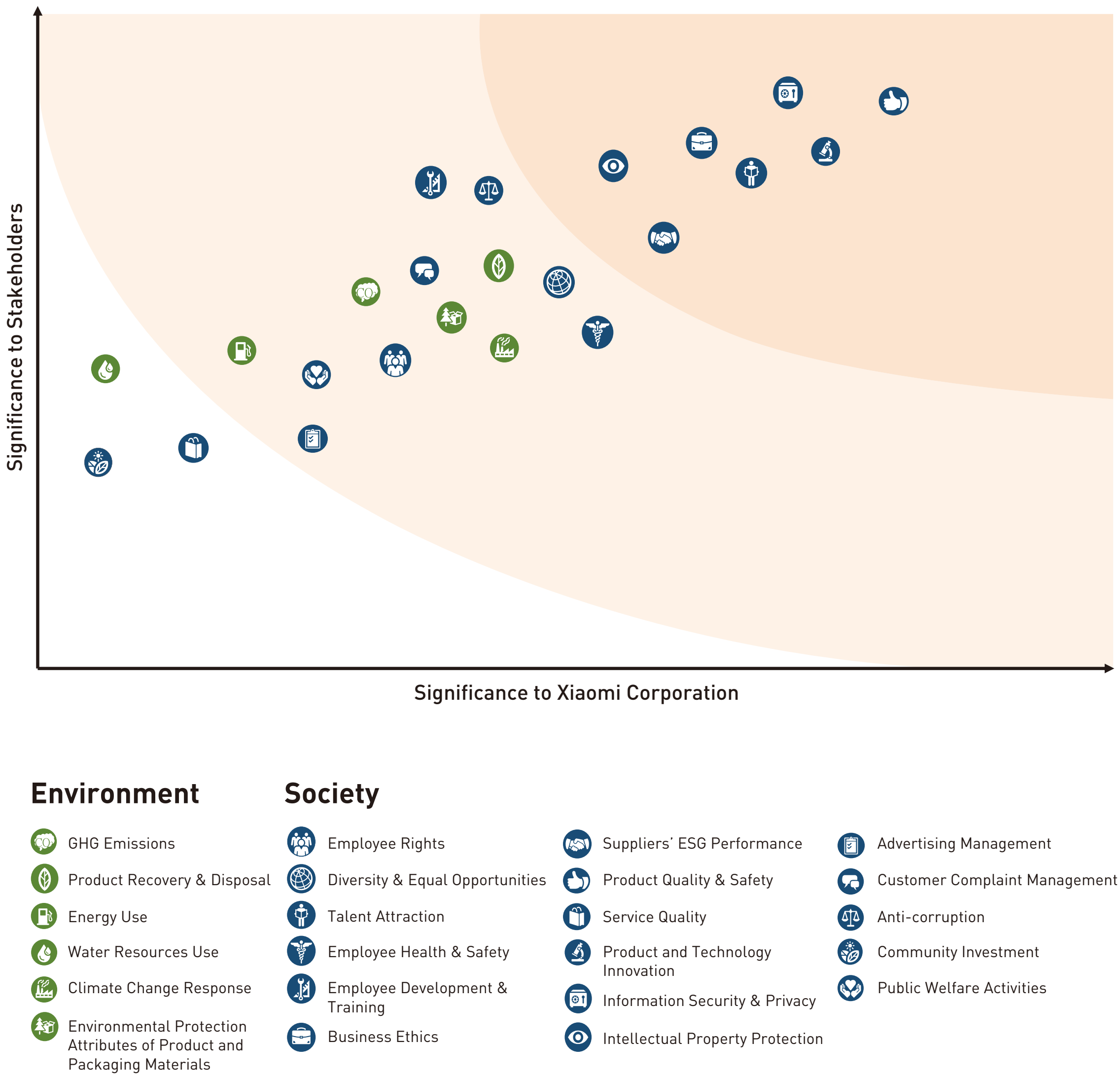
Key stakeholders	Major Communication Channels
Governments and regulators	Regular inquiries, policy consultation, high-level meetings, event reporting, on-site inspection, information disclosure, meetings with government agencies
Investors	Annual general meetings, annual reports/interim reports, results announcements, meetings with investors, news releases/announcements, surveys and questionnaires
Consumers and users	Official website, social networking platforms such as Mi Community, instant messaging software, customer service hotline, press conferences, social media, activities and programs
Employees	Staff communication meetings, labor union activities, complaint boxes, instant messaging software
Suppliers and partners	Supplier conferences, communication meetings with partners, business negotiations, on-site research, project cooperation
Media and NGOs	Social media, press conferences and news releases, interviews, surveys and questionnaires
Community	Community activities, press conferences, public welfare activities, social media participation

V. Materiality Assessment

In 2020, we conducted a materiality assessment on the 11 ESG areas listed in the ESG Reporting Guide and further divided the areas into 23 sub-topics. This was done through continuous and effective engagement with our stakeholders in combination with targeted surveys. As a result, we were able to gain a better understanding of stakeholders' expectations on our ESG activities. The assessment serves as an important reference to our actions and helps us better respond to our stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We identified the following issues to be highly material: product quality and safety, information security and privacy, technology innovation, business ethics, talent attraction, suppliers' ESG management, and intellectual property protection. Material issues include greenhouse gas (GHG) emissions, health and safety, employee development and training, green attributes of product and packaging, customer complaint management, employee rights, anti-corruption, use of energy, climate change response, diversity and equal opportunity, advertising management, use of water resources, and public welfare activities. We will discuss each of these issues separately in the following chapters.



1. Environmental Management

Climate change is a global challenge, and reducing its impact requires collective efforts to realize low-carbon development. Xiaomi actively addresses this challenge through practices that align with China's "30.60" carbon neutrality pledge[1]. We have adopted measures such as energy saving, water conservation and resource recovery in order to continuously improve and enhance our resource management. We also increased the use of renewable energy and applied sustainability concepts across product life cycles. And we are fully committed to working with various partners to explore and develop a business model for sustainable growth.

1.1 Green Operations

Xiaomi aims to run its business in the most environmentally responsible way possible. We strictly adhere to applicable environmental laws and regulations, including the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, and other laws and regulations. In addition, we followed the ISO14001 Environmental Management System and have developed a series of policies and procedures in environmental management, such as the *Xiaomi EHS Environment, Health and Safety Manual*, the *Environment and Occupational Health and Safety Monitoring Management Procedure*, the *Environment Protection Management Procedure* as a guide for resource efficiency improvement, emissions control, waste reduction and recycling. This year, the Xiaomi Science and Technology Park, and our Hong Kong office obtained the ISO14001 Environmental Management System certification .

Based on our operating model, energy is mainly consumed at offices, Mi Homes and data centers. We took a series of measures, including energy efficiency improvement and the use of renewable energy, to reduce carbon emissions in these areas.

Xiaomi's offices and Mi Homes in mainland China are the main places of operation that involve the use of resources. Resource consumption for 2020 was as follows:

Total Comprehensive Energy Consumption[2]
48,608.45 MWh
Direct Energy Consumption
3,192.70 MWh
Indirect Energy Consumption
45,415.75 MWh

Total GHG Emissions[3]
31,347.06 t
Direct GHG Emissions
624.29 t
Indirect GHG Emissions
30,722.77 t

Total Water Consumption[4]
303,132.92 t
Running Water Consumption
187,339.02 t
Reclaimed Water Consumption
115,793.90 t

1 In 2020, Chinese President Xi Jinping announced that China will strive to have its CO_2 emissions peak before 2030 and achieve carbon neutrality before 2060 at the 75th Session of the UN General Assembly.

2 Total energy consumption is calculated according to the power and natural gas consumption and the conversion factors set out in the National Standards of the People's Republic of China *the General Rules for Calculation of Comprehensive Energy Consumption*, the national standard of the People's Republic of China. Direct energy consumption arises from the consumption of natural gas during the Group's operation. Indirect energy consumption arises from the consumption of purchased electricity during the Group's operation.

3 Due to its operational features, the significant air emissions of the Group are GHG emissions arising mainly from natural gas and electricity generated from fossil fuels. According to *Measures for Administration of Carbon Emissions Trading (For Trial Implementation)* issued by the Ministry of Ecological and Environment of the People's Republic of China, the inventory of GHG includes carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons and nitrogen trifluoride. The Group's GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data is presented in carbon dioxide equivalent and the calculation is based on the "2019 Baseline Emission Factors for Regional Power Grids in China" issued by the Ministry of Ecology and Environment of the People's Republic of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" (2019 Edition) issued by the Intergovernmental Panel on Climate Change (IPCC). GHG emissions (Scope 1) arise mainly from the consumption of "direct energy" (natural gas) by the Group's operation. GHG emissions (Scope 2) arise mainly from the consumption of "indirect energy" (purchased or acquired electricity) by the Group's operation, which include the electricity consumption of main offices and self-operated Mi Homes in mainland China.

4 The Group's water resources come from the municipal water supply and the reclaimed water supply. In 2020, the Group had no issues in sourcing water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Office

We introduced and promoted water-saving, energy-saving and paper-saving initiatives in all of our offices. Xiaomi Science and Technology Park, Xiaomi's headquarters, is designed, constructed, and operated in accordance with green building standards. A smart energy management system was installed in our headquarters to control temperature, electricity and lighting. In 2020, the Xiaomi Science and Technology Park was awarded a Two-star Grade *Certificate of Green Building Design Label* under the *Beijing Evaluation Standard for Green Building*. The energy saving rate for buildings reached 65%, the percentage of reusable and recyclable materials reached 10%, and the ratio of green space was 20%. In 2020, about 20.8% of the hot water in the park is heated by solar boiler systems, and 35.2% of the water comes from non-traditional water sources[5].

Main Office Areas in Mainland China

Energy Consumption per Employee

2.22 MWh

GHG Emissions Intensity

0.061 t/m²

Water Consumption per Employee

15.80 t

A smart energy management system has been installed for the entire complex of the Xiaomi Science and Technology Park, which features AI-powered smart control of energy-saving lamps, power sockets and air conditioners; outdoor lighting with seasonal adjustments; lighting brightness adjustments tailored to timing of car parking; and hot water heaters in the washroom sinks with seasonal adjustments. With the above measures, the park saves approximately 1,406,874 kWh of energy per year, equivalent of the reduction of greenhouse gas (GHG) emissions by approximately 1,001.6t of carbon dioxide.

5 Non-traditional water sources refer to water sources that are different from traditional surface water supply and underground water supply and include reclaimed water, rainwater, seawater, and so forth.

We selected sanitary appliances and accessories that meet the Tier-2 water efficiency and requirements of ***Domestic Water Saving Devices***, the ***Technical Conditions for Water Saving Products and General Regulation for Management***, the ***Technical Specifications for Water Saving Devices*** and evaluation standard for green building certification. We also took actions to reduce water consumption, such as posting water conservation reminders, adopting spray irrigation for green spaces and increasing the use of reclaimed water.

We installed two sets of solar boiler systems in the park, with 124 sets of solar collectors and daily heat absorption of 17.2MJ/m^2. Each system provided 11.6 tons and 6.8 tons of hot water per day in the summer and winter months, respectively, totaling 3,608 tons of hot water.

Our non-hazardous waste mainly consisted of domestic waste and kitchen waste in offices. We undertake several measures such as reducing waste generation, promoting waste classification and instant waste conversion in order to mitigate its environmental impact. Hazardous waste generated during our office operations primarily consisted of toner cartridges and ink cartridges, which were processed and recycled via our printing suppliers.

Main Offices in Mainland China

Hazardous Waste	Non-Hazardous Waste
0.367 t	**4,661.07 t**
Hazardous Waste per Employee	Non-Hazardous Waste per Employee
0.019 kg	**0.24 t**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For domestic waste, we labeled trash bins to facilitate waste classification. In addition, all waste was classified once again at the transit depot where office cleaners gathered waste to ensure the accuracy of sorting. We conducted garbage classification training through short films and WeChat mini programs to make employees aware of the significance and protocols of waste sorting. Meanwhile, we provided trainings to cleaning staff to ensure accurate, proper waste sorting.

The canteen at the Xiaomi Science and Technology Park provides more than 20,000 meals per day. Utilizing the professional waste processing equipment we purchased, we were able to convert kitchen waste into organic fertilizer in accordance with national standards. In 2020, we treated 1,882.5 tons of kitchen waste, converting it into about 188.25 tons of organic fertilizer. We simultaneously continued to increase the food yield, posting reminders to encourage employees to reduce food waste. In the procurement process, we prioritized reusable packaging bags to reduce the consumption of single-use products.

Mi Homes

In 2020, we extended the "paperless" concept from the headquarters to Mi Homes, by using electronic price tags and offering paper instead of plastic bags. Our self-operated Mi Homes actively responded to the stimulus plan of the Beijing Municipal Government, selling energy-saving products including TVs, refrigerators, air conditioners and air purifiers. In 2020, a total of 30,572 units of products we sold received municipal energy-saving subsidies.

Mi Homes in Mainland China

Energy Consumption Intensity

0.16 MWh/m^2

GHG Emissions Intensity

0.096 t/m^2

Data Centers

We endeavored to build green and energy-efficient data centers and we have adopted several measures to reduce energy consumption.

- We chose servers with high energy efficiency and platinum-grade power saving technology;
- Our data centers were equipped with both water-cooling air-conditioners and natural cooling system, where water cooling technology is used in winter and natural cooling is used in spring and autumn to lower the energy consumption of chillers;
- UPS (uninterruptible power supply) system was considered to be energy efficient, thus used in our self-owned data centers. The overall efficiency of the equipment could exceed 96% under normal mode, and 99% under energy-saving mode.

In the meanwhile, we are now gradually moving from physical servers toward more efficient cloud servers. We also take energy efficiency as one of the most important considerations when choosing cloud service providers and data centers.

1.2 **Green Product and Packaging**

Xiaomi has provided our users with more than 2,000 types of products. Our products are the best testament of our commitment to practicing low-carbon concept. We are striving to implement this concept throughout the entire product life cycle — including research and development, design, material selection, production, logistics, in-use and recycling.

Total Packaging Materials for Finished Products[6]
46,808.15 t
Intensity of Packaging Materials for Finished Products
0.19 t/RMB million

In 2020, we continued to reduce the usage of packaging materials, increase the adoption of non-plastic and environmentally friendly materials, and maximize the utilization of environmentally friendly materials. We strived to leverage our technological capabilities to design and optimize power-saving features across our software and hardware, ultimately reducing energy consumption of our products. At the same time, we helped our ecosystem supplier partners streamline product packaging design toward a more environmentally friendly method. We also steadily promoted product and material recycling, and thereby extending the life cycle of our products.

Energy-saving System

Xiaomi has a top-notch engineering team in smartphone operating system development. In 2020, we released a number of proprietary and industry-leading functions in the MIUI 12 and MIUI 12.5 operating systems, which leveraged technology innovation to consistently reduce power consumption.

- **Lower MIUI 12.5 Power Consumption:** On average, power consumption of the MIUI system dropped 35% in terms of memory usage and dropped 25% for system utilization.

- **Full Dark Mode:** The display consumes the most power in a smartphone. MIUI 12 features a "night shift" recommendation prompt on the power-saving advice page and results page, encouraging more users to turn on dark mode for energy-saving.

- **AI Power 4.0 Smart Energy-Saving:** Energy-saving could be achieved through various AI-powered energy-saving technology, on functions such as the shift between 4G and 5G, display adaptive brightness, frame rate switch, activation of sleep mode, applications management and push notifications smart management.

- **Adaptive Sync Technology:** Xiaomi's proprietary Adaptive Sync technology enables 7 stages of refresh rate adjustment from 30Hz to 144Hz in accordance with different display needs for different content. This innovative display technology can also prolong battery life as it ensures superior viewing experience by applying the most appropriate refresh rate.

6 Total packaging material used for finished products is the total amount of packaging materials used for smartphones, TVs and major products of ecosystem products. In 2020, the packaging materials of ecosystem products are managed by ecosystem companies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Smart Charging Protection:** The system can learn a user's charging pattern and automatically switch to the energy safe mode when the user is inactive. This feature is designed to prolong battery life while reducing safety risks.

- **Abnormal Power Usage Alert:** A notification alerting abnormal power usage would pop up when the real-time monitoring function detects any usual application consumption over a short period of time. Furthermore, our operating system has brought power usage issues and power-saving suggestions to the homepage to users via notification prompts.

Energy-saving Products

In terms of manufacturing and proper use of our products, we closely followed the most up-to-date global policies and regulations that address energy efficiency. As such, we integrated energy-saving and eco-friendly concepts into our products which were well-received by the market and users.

Smartphone: At the launch of Mi 11, we introduced two options for consumers, the "full version" with a charger and the "standard version" without a charger. We offered two options at the same price, encouraging consumers to make the selection. As China's first smartphone maker to launch this program, we not only promoted the reduction of carbon emissions across key components of supply chain management including manufacturing, transportation and packaging, but also transmitted the concept of "Go Green" to our users. On the day Mi 11 went on sale, about 20,000 consumers chose the "standard version" without a charger.

Mi TV: Xiaomi leveraged its strengths in supply chain to drive advanced and power-saving technology in the injection moulding of metal back covers of TVs, and in the quality of embedded structure elements. These technologies not only reduced the risk of product damage due to careless contact and scratches, but also decreased energy consumption during the manufacturing process. It reduced electric power consumption by 0.06 kWh per TV unit at average and an annual reduction of 326 tons CO_2-eq emission. Furthermore, painting techniques for the plastic back cover were upgraded, leading to average energy savings of 0.084 kWh per each TV unit and an annual reduction of greenhouse gas emissions by 457 tons CO_2-eq.

Packaging Material Reduction

In 2020, the packaging materials used for a wide range of Xiaomi products amounted to 46,808.15 tons. We wanted our packaging to be eco-friendly and continued to explore various ways to accomplish this from package design to material selection. As of the end of 2020, Xiaomi had applied a packaging materials reduction solution across 95% of our self-branded products and increased the packaging space utilization rate to 70%–80%.

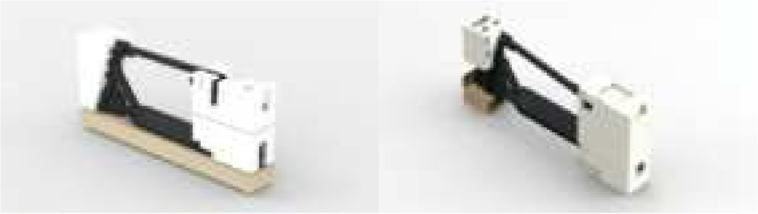
- **One Paper Box:** Xiaomi launched One Paper Box in 2019, saving up to 40% of the packaging materials compared with traditional packaging. In 2020, we successfully applied this design solution to more products, including headsets, wireless Bluetooth headsets, outdoor speakers, Mi Bands, mouse and keyboards, smartwatch accessories, smart light bulbs, electric toothbrushes, hair dryers, electronic thermometers, handheld vacuum cleaners, and so forth.

- **Smartphone package:** In 2020, Xiaomi optimized its packaging design for smartphones, streamlining the inner tray design, reducing adhesive surfaces for mid-to-high end smartphone packages and removing adhesive surfaces in other packages. This initiative saved an average of 5g of weight for one single package box and approximately 770 tons of white cardboard for all smartphones sold in 2020, equivalent to 731 tons CO_2 emission. Our flagship smartphone Mi 11, released in December 2020, used a box with reduced space saving 45% of container volume.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Product manual:** In 2020, manuals for IoT & lifestyle products used more environmentally friendly materials. Paper consumption was reduced by up to 30%.

Mi Electric Scooter Pro: A series of actions were taken to optimize the packaging design, including reducing the size of the bottom paper support and eliminating the EPE gasket. This significantly lowered the use of raw packaging materials, labor hours, and transportation and storage costs. In addition, the packaging consumed 12% less plastics and 83% less paper.



Packaging Plastic Reduction

We identified the usage of plastics in Xiaomi product packaging and replaced some with paper and other environmentally friendly materials. Since October 2020, we have reduced the weight of plastics in smartphone packaging by 60%, starting in Europe.

- **Smartphones:** Replaced gift box shrink wrap with biodegradable paper; replaced plastic sealing tape with biodegradable materials; replaced plastic waterproof bags with white kraft paper bags

- **TVs:** Eliminated EPS foam and used more environmentally friendly air column bags

- **Other IoT and lifestyle products:** Used paper structures or pulp trays instead of plastic for buffer and shock resistance; reduced plastics in packaging and used honeycomb boards/pulp tray structures to protect and contain medium and large size products

Ninebot Minis: By replacing the two EPS-lined inserts for tires with a paper structure, the amount of EPS foam was reduced by 40%. We also removed the accessories box and reduced paper usage.

Equipment Recycling

Recycling equipment extends product life cycle while reducing electronic waste and contributes to a more sustainable economy and creates new business opportunities for relevant industries and regions. Xiaomi is committed to product recycling and resource recovery initiatives, including an array of recycling and trade-in programs.

In 2020, we upgraded our trade-in plans across our online and offline stores to cover a wide range of product categories, such as smartphones, laptops, tablets, TVs and speakers. We did a detailed and thorough quality inspection report to offer a reasonable price for trade-ins. After a trade-in, the offered price can be paid to users in the form of cash or "cash coupons" within 2 hours. This plan was designed to facilitate various online and offline recycling approaches, such as free door-to-door pick-up to encourage user engagement in our trade-in programs. We also extended trade-in programs and relevant maintenance services in overseas operations. As of the end of 2020, Xiaomi's trade-in program was available in Hong Kong, Italy, France, Germany and the Netherlands.

Internally, functioning office electronic devices of satisfactory quality were donated or sold to our employees at a discount to extend product lifecycle. In 2020, we donated 280 laptops to external organizations and our employees purchased 420 laptops.

Scooter maintenance project: **In 2020, Xiaomi officially launched a scooter maintenance service overseas, ensuring our scooter products are in good condition for even longer periods, leading to a reduced carbon footprint.**

We partnered with licensed third parties for product recycling and post-processing. We monitored the entire handling process to ensure material extraction after dismantling or compliance in sales to minimize environmental impact. In addition, we implemented a strict privacy protection policy and conducted complete data erasure on recovered devices. In 2020, 127,271 Xiaomi and Redmi brand smartphones were recycled, reducing approximately 25 tons of electronic waste.

Logistics Packaging Recycling

We also promoted the recycling and reduction of logistics packaging: cartons of certain products that met the requirements for appearance and quality were reused in the warehouse. This increased the recycling rate of product packaging to 9%, saving approximately 3 million single-use cartons in one year. We promoted the reuse of transfer boxes and pallets. 320,000 boxes and 10,000 wooden pallets were saved in 2020.

We also developed a packaging material recycling system that was implemented across all distribution centers nation-wide for systematic and proper management of product recycling.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Recognitions

In 2020, Xiaomi was widely recognized by users and the industry for its efforts in promoting green products and packaging. Our products complied with the energy efficiency standards across different organizations, such as the US Department of Energy (DOE), the California Energy Commission (CEC), the China Energy Label (CEL) and the EU Energy-related Products (ErP). This year, some of Xiaomi's products received China Energy Conservation Product Certification (CECP).

CECP-certified Products
Redmi Display 1A 23.8 inches
Mi Fast LCD Monitor 24.5 inches
Mi Display 23.8 inches
Mi Curved Display 34 inches

2. Quality as Always

At Xiaomi, we understand the importance of product quality, and it is a guarantee that we make to all our stakeholders. In 2020, in addition to bringing numerous ground-breaking product innovations to market, we specifically concentrated our efforts on strengthening quality control and enhancing user experience.

2.1 Holistic Quality Management

We utilize a holistic, user-centric approach to drive all our initiatives towards product quality, user experience and service quality. Employee input is vital in this approach so our management system is designed to encourage, enable and promote employee participation at every step. By harnessing the collective creativity and insight from a wide spectrum of vantage points, we are able to drive quality advancements that continually reinforce our success.

Management System

The Quality Committee, established in 2019, is responsible for overall quality management at Xiaomi. In 2020, the committee introduced a series of internal policies, including the *Quality Performance Evaluation Standard of Xiaomi Corporation*, *Xiaomi Quality Award Selection Standard*, and the *Quality Incident Management Protocol of Xiaomi Corporation*. We also standardized and promoted key quality indicators, developed a reward-penalty mechanism as well as an emergency response mechanism. When key quality indicators are triggered, we conduct immediate targeted analysis and emergency corrective measures, followed by post-event reviews and process optimization. With this closed-loop management, we ensured constant improvements in quality, user experience as well as brand competitiveness.

In 2020, Youpin and Smart Hardware department obtained the ISO9001 Quality Management System Certification. By the end of the year, our Smartphone, Mi TV, Laptop, Smart Hardware, and Large Home Appliance departments and e-commerce platform Youpin also held the ISO9001 certifications.

Practices

The Mi TV department employed a full lifecycle accountability mechanism for quality management, supported by an alliance group consisting of product development section, manufacturing section and quality operation section. Each sub-team is responsible for the product's entire life cycle. This has led to a 15% year-over-year reduction in the fault feedback ratio (FFR) of TV products.

The Smart Hardware department established a multi-dimensional quality monitoring system, including QMS, Eagle Eye data analysis and an early warning system. In addition, we selected FFR targets in a thoughtful way, established real-time complaint tracking system, held quality management meeting per week, conducted analytical reviews on specific quality issues, and therefore we were able to achieve lower-than-market-level fault feedback ratios.

Youpin also established a risk control mechanism to screen products before they are available for sale on the platform. If existing product standards cannot fulfill our users' needs, we will promptly upgrade product standards along with product quality concurrently.

For more information regarding service quality, please refer to Section 5.1 and Section 5.2.

2.2 Product Safety

Xiaomi pledges to ensure product safety. We assess product safety throughout a product's entire life cycle, covering product development and design, material selection, quality verification, market launch and after-sales. We also pay close attention to developments of international standards and update our standards accordingly. As such, we are able to steadfastly persist in delivering outstanding performances in safety specifications, electromagnetic compatibility, wireless certification, environmental protection, ergonomics, energy efficiency, and patent certification.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Xiaomi enforces strict management of hazardous substances. We comply with the restrictions on harmful substances and chemicals listed in the *Stockholm Convention on Persistent Organic Pollutants* (POPs), the *Restriction of Hazardous Substances* (RoHS), the *Registration, Evaluation, Authorization and Restriction of Chemicals* (REACH), and the *Toy Safety Directive*. In addition, we also followed the local regulatory requirements related to toxic and hazardous substances.

We update our internal guidelines in accordance with relevant international and domestic standards or the Group's general quality guidance. In 2020, the Group issued *Management Guidelines for Environmentally Hazardous Substances in Product*s. We also voluntarily applied for additional certifications on product health and safety and were successfully certified.

- CQC Mark Certification is a voluntary product certification developed by the China Quality Certification Center. The Certification focuses on safety, electromagnetic compatibility, performance, hazardous substance limits, and other indicators on product quality and safety. It aims to protect consumer interests, promote product quality improvement and enhance the competitiveness of domestic enterprises in global markets.

Products with the CQC Mark Certification
Xiaomi Mijia Household Electric Oven 32L
Xiaomi Mijia Handheld Steamers
Xiaomi Mijia Smart Switch
Xiaomi Mijia LED Bulb Bluetooth MESH Version
Electric Scooter M365

- TÜV Rheinland Low Blue Light (Software Solution) Certification.

Products with the TÜV Rheinland Low Blue Light Certification
Redmi Monitor 1A 23.8-inch
Xiaomi Monitor 27-inch 165Hz
Xiaomi Fast LCD Monitor 24.5-inch
Xiaomi Monitor 23.8-inch
Xiaomi Curved Gaming Monitor 34-inch

- TÜV Rheinland Eye Comfort Certification

Products with the TÜV Rheinland Eye Comfort Certification
MIJIA Desk Lamp Pro

2.3 Quality Awareness Building

In 2020, Xiaomi established a comprehensive training system for quality management. We conducted both online and offline trainings, covering topics such as the overall quality system, product safety and health standards, and user insights. This year, over 3,500 employees participated in these quality trainings. We also arranged a series of activities to promote quality awareness.

Xiaomi Quality Month: In September 2020, we launched the inaugural Xiaomi Quality Month. With the theme "strengthening quality management and enhancing user experience," we held more than 40 online and offline events that saw participation from our executives, employees, select suppliers and partners.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


Annual Xiaomi Quality Award: To inspire a spirit of craftsmanship and encourage outstanding quality at Xiaomi, we created the Xiaomi Quality Award in 2017. In 2020, we introduced a new Department Quality Award. More than 20 departments participated with nearly 200 projects. The Xiaomi Quality Award became the most prestigious honor for quality at Xiaomi.

Mobile Phone Quality Achievement Exhibition: 2020 marks the 10th anniversary of Xiaomi. We co-organized a Mobile Phone Quality Achievement Exhibition with quality assurance authorities and an array of selected Beijing-based companies. At the event we showcased how an ordinary piece of glass is transformed into the back cover of a smartphone. With real-life examples, we demonstrated our persistent pursuit of excellence in quality.

2.4 Recognition

In 2020, Xiaomi received a number of industrial recognitions for its achievements in quality management.

Awards	Organization
Quality Technology Award, Second Prize	China Association for Quality
Air Purifier Enterprise Standardization Leader	China National Institute of Standardization
2020 Enterprise Standardization Leader — Air Purifier Industry	State Administration for Market Regulation
2020 Enterprise Standardization Leader — Water Purifier Industry	State Administration for Market Regulation
2020 "Group Standards Application Paradigm Projects" — Technical Specifications of Intelligence Evaluation for Smart Door lock	Ministry of Industry and Information Technology
Best User Experiences Award	Indonesia Contact Center Association (ICCA)

Note: The table above shows selected quality awards received by Xiaomi in 2020.

3. Technology Innovation

Our company is built on technology innovation. In 2020, our research and development and design personnel achieved breakthroughs and continued to push the boundaries of technology innovation. We have been pioneers in technologies including operating systems, hardware products, platforms, and others.

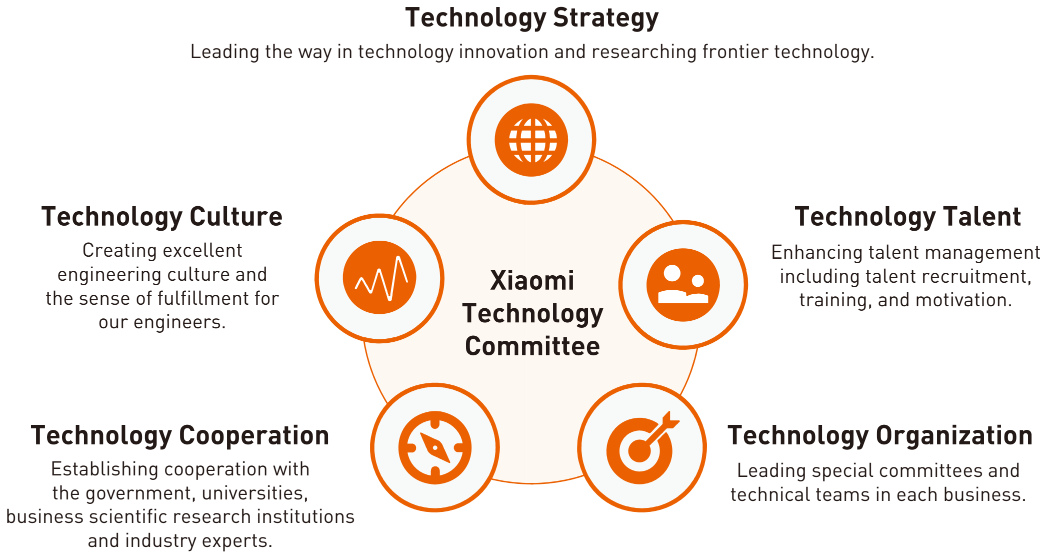
In 2020, Xiaomi invested RMB9.3 billion in R&D, and we ranked among the top 20 Chinese companies in terms of R&D spending. We were included among the *Top 100 Global Innovators by Clarivate Analytics* for the third consecutive year, and ranked 24th by Boston Consulting Group's *Top 50 Global Innovators 2020*. Xiaomi was also recognized as one of the "50 Smartest Companies (TR50)" by the *MIT Technology Review* at the EmTech China 2020 Global Emerging Technology Summit.

3.1 Technology-driven Business

Our Technology Committee was established in 2019. The committee seeks to improve our technology capability through five key areas: technology strategy, technology talent, technology organization,

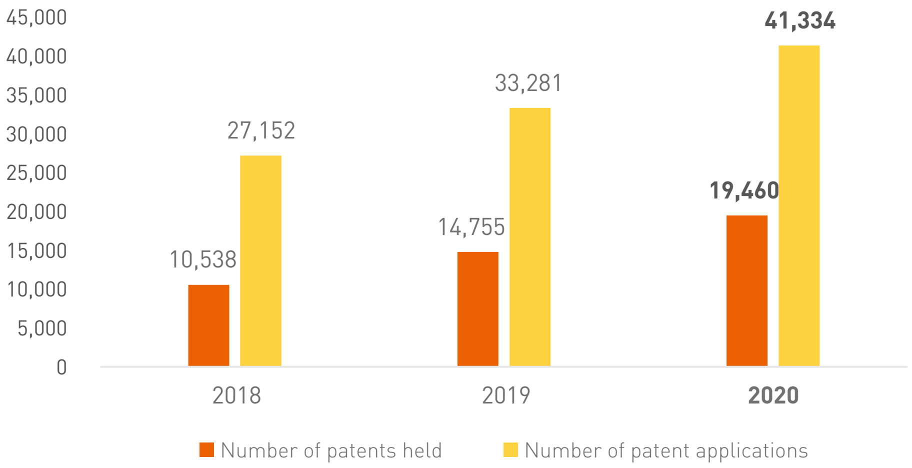
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

technology cooperation, and technology culture. In 2020, the committee further strengthened and optimized its organizational structure and functions by establishing the Technology Organization, Technology Cooperation, and Technology Culture teams to facilitate more systematic and professional technology management.



We take intellectual property rights seriously and motivated and incentivized our employees to submit patent applications. To this end, we established a generous rewards program for patent applicants: *Measures for Patent Incentives and Compensation Management at Xiaomi Corporation*. This year, Xiaomi submitted 8,053 patent applications worldwide, of which 3,372 were granted and over 180 copyrights were registered. By the end of 2020, we held a total of 19,460 patents and we were among the top AI patent applicants among internet services companies in the world.

Amount of Xiaomi patents in 2018-2020



This year, we organized various events such as the Xiaomi Million Dollar Technology Award, Data Mining Competition and our first Hackathon to motivate our employees and raise technology awareness within the company.

Xiaomi's first Hackathon was held in October 2020. In 48 hours of non-stop programming, 24 creative projects were submitted by 11 participating departments and led to 13 patent filings. This type of activity provides a great platform to demonstrate our engineers' capabilities and explore innovative ideas.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To reward outstanding contribution to Xiaomi's innovative technologies , Mr Lei Jun, Chairman and CEO of Xiaomi awarded the 2020 Xiaomi Million Dollar Technology Award to the engineering teams that contributed to the development of fast-charging technology and MIUI privacy protection features.

As we upgrade our strategy of "5G × AIoT," we attended domestic and international industry stardard-setting meetings. We also proactively work with universities and scientific research institutions in various joint technology projects.

For more information on industry standardization and technological cooperation, please refer to section 7.4 Industrial Influence.

3.2 Product & Technology Innovation

Xiaomi's Technology Highlights in 2020

Mi TV Lux Transparent Edition	In 2020, Xiaomi unveiled its first transparent TV at its 10th-anniversary press conference. Unlike traditional TVs that come with a back panel, with an edge-to-edge transparent self-luminous display transmitting images that seem to be suspended in the air. This TV adopts an aesthetic design that combines a 5.7mm ultra-thin body rectangular screen.
Large-aperture Telescopic Lens	Developed by Xiaomi, this lens technology brings professional photography to smartphone cameras, enabling smartphone users worldwide to take professional quality photos. It adopts a large aperture and increases light collection by 300%, providing better night and portrait photography capabilities. We also improved image stabilization to boost image quality by up to 20%.

3rd Generation Under-screen Camera Technology	This 3rd generation technology allows the screen to pass light through the gap of sub-pixels, doubling the number of horizontal and vertical pixels compared with other common solutions on the market. Combined with Xiaomi's optimization algorithm, the new under-display camera offers a groundbreaking photography experience that rivals the imaging performance of conventional front cameras.
Compound-eye Camera Open Protocol	The compound-eye camera encompasses functions of photo shooting, video chat, projection and smartphone interconnection whereby multiple cameras can function simultaneously. It allows image sharing and collaboration between smartphones and IoT devices for better picture quality and higher resolution.
"Point to Connect" UWB Technology	Ultra-wideband (UWB) is the latest development in connection technology with extremely precise positioning. With UWB and Xiaomi's array antenna technology and algorithms, a smartphone can control the smart devices in its surroundings simply by pointing toward them with an angle accuracy within ±3°, bringing users a brand-new interactive experience.
120W Wired Fast Charging	Xiaomi is the first company to develop 120W wired fast-charging technology, and the first to bring this technology into mass-production. It only takes 23 minutes to fully charge a 4500 mAh battery, marking multiple breakthroughs in hardware structure and charging algorithms.
80W Wireless Fast Charging	As a pioneer in charging technology, Xiaomi launched the industry's first 80W wireless fast charging technology in 2020. A 4000 mAh battery can be charged to 50% in 8 minutes and fully charged in 19 minutes, setting new industry charging speed records.
MiNLP 3.0	MiNLP 3.0 (Xiaomi Natural Language Processing Platform) is upgraded with more features, adding content understanding and public opinion analysis to the original basic algorithms and the semantic parsing module. MiNLP 3.0 boasts accurate content processing based on multimodal features such as text, speech, images, video, and so on.
MACE Micro	MACE Micro is Xiaomi's proprietary deep learning inference framework. It is an AI engine that integrates extensive AI algorithms and is specifically built for small IoT products. It supports all aspects of AIoT products with its advantages in low power consumption and low-cost.
Xiaomi Kaldi	The new version of Kaldi speech recognition tools consist of core algorithms, training data preparation and sample scripts. The upgrade makes it easier for developers to create algorithms for various kinds of voice recognition, and process metadata of audio and text content.

Note: The chart shows Xiaomi's selected technologies in 2020.

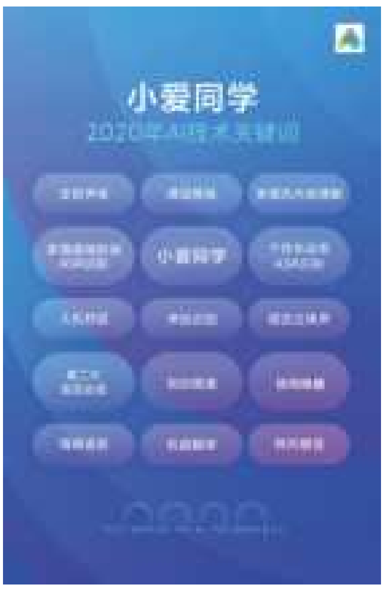
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Artificial Intelligence (AI)

AI technology is at the core of our technology development. We continuously work to develop AI technology, making it more accessible to the broader community, including our value chain partners, to empower their business operations.

We have identified six major fields for development — computer vision, acoustics, speech, natural language processing (NLP), knowledge graphs and other machine learning capabilities. Through years of dedication, Xiaomi has built its own AI platform with unique capabilities. Built upon this platform, we developed many applications to form a hardware ecosystem which in return lays the groundwork for machine learning capabilities.

In an effort to build up our AI infrastructure and tools, Xiaomi has launched and continuously upgraded our AI assistant "小愛同學." Our achievements with our AI assistant demonstrate our well-established capabilities in this area, as well as our competence in AI technology. It includes more than 1,400 features and has been integrated into smartphones, Xiaomi AI speakers, Xiaomi TVs and many other devices. By the end of 2020, our AI assistant "小愛同學" had been activated a cumulative of 49.5 billion times.



In 2020, Xiaomi released "小愛同學" 5.0 with five major upgrades:

- **All-scenario smart collaboration:** Allows intelligent decision-making in a multi-device environment to achieve collaborative activation, response and reminders.
- **Dialogue-based active intelligence:** Actively learns user knowledge, establishes "memory," and makes conversation with users.
- **Customized emotional voices:** Synthesizes customized sounds via adaptive learning.
- **Multimodal interaction:** Through an array of modes, such as voice, body language, text, images, users can interact with their devices in different scenarios.
- **Smart learning assistant:** Integrates a large volume of high-quality online education resource, including AI translation, AI class timetables and other functions.

Xiaomi MACE — Deep Learning Framework ranked in the "Top 30 Projects" of the 2020 SAIL Award, recognized by the World Artificial Intelligence Congress.

Top Design

Xiaomi weaves technology innovation and design aesthetics into its products and packaging. Based on the concepts of rationality, practicality and universality, Xiaomi has created its characteristic "Mi Look" style. During 2020, Xiaomi won a number of major design awards.

Products	Awards
Xiaomi AX3600	Recognized as a Five-Star product by the Shenzhen Consumer Council and the Macao Consumer Council
Xiaomi AI Touch Screen Speaker Pro8	Red Dot Design Award
Redmi AI Speaker Play	Red Dot Design Award
Xiaomi AI Touch Speaker Large Screen UI Design	Red Dot Design Award
Mi Kids Sonic Electric Toothbrush Packaging Design	Red Dot Design Award
Mi Watch Packaging Design	Red Dot Design Award
Xiaomi Bluetooth Earphone Youth Version Packaging Design	Red Dot Design Award
HiFi Hybrid Flagship Earphone Packaging Design	Graphics Design Annual 2021 Competition Gold Award
India Series Packaging	A' Design Award Silver Award
HiFi Hybrid Flagship Earphone Packaging Design	A' Design Award Gold Award
Mi Watch Packaging Design	A' Design Award Silver Award
Mi Kids Sonic Electric Toothbrush Packaging Design	Dieline Personal Care Third Place
Mi Kids Sonic Electric Toothbrush Packaging Design	Pentawards Bronze
HiFi Hybrid Flagship Earphone Packaging Design	Pentawards Silver
Mi Watch Packaging Design	Pentawards Silver
One Paper Box — Packaging Structure Design	iF Design Award

Note: The chart above shows selected design awards for Xiaomi mobile phone and smart hardware products in 2020.

3.3 Smart Manufacturing

We gained valuable experience in smart manufacturing through years of working with our manufacturing partners. In 2019, we began production at Xiaomi's first smart factory with investment of RMB600 million. Our 16,800 m^2 smart factory is equipped with our proprietary smart manufacturing equipment, including a fully automated production line for our flagship smartphones.

This factory features several important innovations and breakthroughs, including an automatic production system, an upgrade in industrial robots and a visual calibration system. These cutting-edge technologies enable our factory to run 24 hours a day. In addition, 92% of the manufacturing equipment was designed and developed by Xiaomi and our investee companies. Our automation level reached 63% since inception and is expected to improve in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Lights Out Production

Unmanned production plan; achieving 24H lights out production

Fast line-switching

System-level co-production; achieving model switching in 20 minutes

Board testing System

Industry-first, one-click precision testing & line change

Full Testing System

industry's first linear type highly flexible automatic testing line

Four major breakthroughs in smart manufacturing

In 2020, Xiaomi announced "Star Actions," an initiative to provide our smart manufacturing solutions to our value chain partners. At the end of 2020, Xiaomi successfully provided such solutions to more than 100 companies across our value chain.

4. People First

At Xiaomi, we believe talent is our most valuable asset and the source of our competitiveness. To attract and retain talent, we promoted diversity in the workplace, advocated a healthy work-life balance, and provided employee welfare programs. We also provided an extensive range of professional trainings for our employees to meet their career development goals.

As of December 31, 2020, we had 22,074 employees worldwide. We are inspired to be the "best employer" in the eyes of our employees.

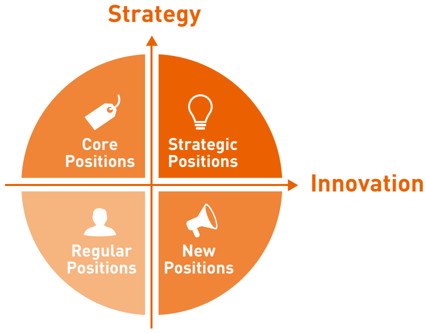
4.1 Employee Rights

Recruitment and Employment

Xiaomi upholds the principles of "fairness, impartiality and openness" and strictly abides by the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and other applicable laws, regulations and international practices wherever we operate. We have developed internal policies to regulate our practices in the areas of recruitment, employment, compensation and welfare, performance assessment, equal opportunity, anti-discrimination and diversity. We prohibit employee discrimination based on race, age, gender, marital status, and religion. We also prioritize local hiring in many of the markets in which we operate. At the end of 2020, our employees were distributed across 20 countries and regions on four continents, including 20,418 in mainland China and 1,656 in overseas markets.

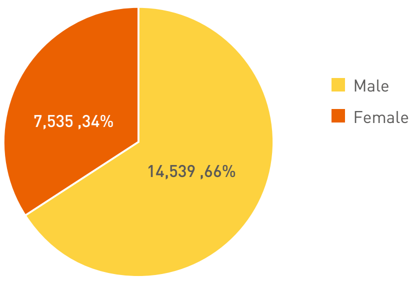
Our *Employee Handbook* provides guidance on corporate policies and procedures and clearly sets forth our employees' rights and benefits. We strictly abide by the *Special Rules on Labor Protection for Female Employees* to protect the legal rights and physical and mental health of female employees. We strictly prohibit the employment of child labor and forced labor. We formulated standard remedial measures to respond to issues related to recruiting, day-to-day workplace scenarios, and emergency situations.

In 2020, we assigned recruitment specialists to each business unit to respond faster to urgent hiring needs. We also set up a strategic recruitment team responsible for the acquisition of talents in core and strategic roles and for conducting research on industry best practices for talent management. Furthermore, the expansion of our campus recruitment channels and school coverage has helped us attract high-calibre graduates.

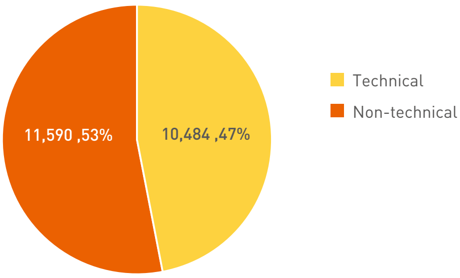


In 2020, we hired 7,885 full-time employees, of which 2,210 were new graduates and 73% were research and development personnel. At the 2020 Xiaomi Developer Conference, we announced plans to recruit 5,000 engineers in 10 strategic technology areas in 2021, accounting for more than 20% of our current total workforce.

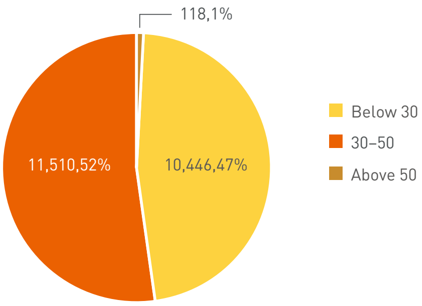
Total Workforce by Gender



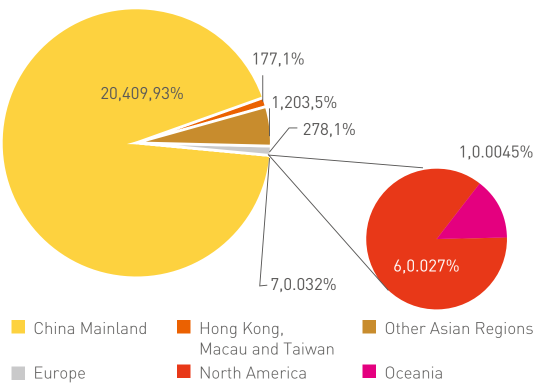
Total Workforce by Employment Type



Total Workforce by Age



Total Workforce by Region



We have established multiple human resource programs to attract, nurture, and retain our best employees, building a solid foundation for our long-term development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Xiaomi Future Star

"Xiaomi Future Star" is a talent development initiative targeting outstanding fresh graduates with PhD and master's degrees to attract and retain Xiaomi's future technology and professional experts. Upon joining Xiaomi, employees will focus on scientific research in innovative technologies. In 2020, 29 graduates were recruited through this initiative, of which 69% had completed doctorate programs and 31% held master's degrees.

Postdoctoral Program

We worked with top mainland China universities such as Tsinghua University, Peking University and Wuhan University to set up a Postdoctoral Research Program. The joint development attracts outstanding talent in AI, big data, communications and other related fields.

In 2020, our employment and talent retention were recognized as follows:

Award	Organization
Liepin 2020 Extraordinary Employers for Diversity	Liepin
Top Graduate Employers	51 Job and YingJieSheng.com
2020 HeRo	Beisen Research Institute of Talent Management
Lagou 2020 Internet of China Top Employer	Lagou
"China Power" — 2020 HR Technology Innovation — Globalization Progress Award	CDP Group, China Institute of Strategy & Management, United Nation Global Compact, and Shanghai UN Research Association
China Best Employer Award 2020 — China Best Employers for University Students	ZHAOPIN.COM
China Best Employer Award 2020 — China Best Employers Nationwide Top 100	ZHAOPIN.COM
2020 Most Attractive Employers in China Internet Industry — Top 3	Universum

Compensation and benefits

Xiaomi endorses equal pay for equal work and offers our employees fair and competitive compensation and benefits under a performance-based structure. We want our performance review system to be impartial and objective, and we offer a multi-dimensional review mechanism. To this end, we set up three roles for evaluation this year — assistant reviewers, consulting advisors and primary reviewers. Additionally, we have a performance review appeal mechanism where employees are given an open communication channel to ensure their performance review was conducted fairly and objectively. For overseas employees, we standardized compensations across the world. We also implemented the *Tax Balancing Policy for Employees on International Assignment at Xiaomi Corporation* to ensure fair and reasonable taxation for expatriates.

To motivate our employees , we promoted our equity incentive program. In 2020, the Board of Directors awarded selected participants[7] a total of 137,947,024 shares across 4,686 issues.

In addition to social insurance and welfare prescribed by national and regional regulations, we provided employees with a series of Company benefits:

- Supplemental benefits: includes supplementary business insurance, annual physical examination, birthday benefits, marriage benefits, maternity benefits, anniversary benefits and employee care package benefits

- Global business travel insurance for expatriates: covering loss of property, medical expenses, casualty, travel delay, emergency aid, to ensure physical safety and security of our employees

- Employee Assistance Program (EAP): free professional counselling to employees and family members through online and offline channels. By the end of 2020, the EAP had been used more than 10,000 times, and had held more than 11 offline activities

4.2 Employee Protection and Benefits

Health and Safety

We strive to provide a wholesome and safe work environment. We strictly abide by the *Production 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*, the *Provisions on the Supervision and Administration of Occupational Health at Work Sites* and other applicable laws, regulations and internationally recognized practices in locations where we operate. We established a health and safety management system for each of the offices in accordance with the ISO45001 Occupational Health and Safety Management System Standard. This year, the Xiaomi Science and Technology Park and Xiaomi's Hong Kong office received ISO45001 certifications.

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7 "Selected Participants" refer to any Eligible Person approved for participation in the Share Award Scheme and who has been granted any Award pursuant to the Share Award Scheme. "Eligible Person(s)"refers to any individual, being an employee (whether full-time or part-time), director (including executive, non-executive 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 affiliates (as defined in the Share Award Scheme) who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We devised programs such as the Mi Project Emergency Response Manual and the Production Facility Safety Inspection Guidelines to address occupational health and safety risks and emergencies. These programs provide standardized guidance to protect our employees during emergencies. We regularly conducted safety inspections, fire drills, and safety awareness campaigns to improve employees' safety awareness and emergency response skills.

Employee Activities

We valued our employee's work-life balance by offering diverse recreational activities. By the end of 2020, Xiaomi had established 57 employee clubs. This year, we organized five company-wide events and over 300 employee-initiated activities with more than 10,000 participants.

To celebrate our 10th anniversary, we organized a series of events, including live broadcast of the anniversary celebration, the Xiaomi Talent Show, the Xiaomi Family Day, the Opening Week Celebration of Xiaomi Science and Technology Park and Xiaomi Kart Racing Competition, sharing Xiaomi's vigor and vitality with our employees and their families.

In 2020, we organized numerous sports club activities, such as basketball, football and badminton tournaments.

Employee Communication

Xiaomi believes it is important to have multiple communication channels to engage with our employees. We conducted employee surveys on the effectiveness of these communication platforms to ensure employee feedback was addressed in a timely manner.

- Internal Online Platform: Xiaomi Office
- Hotline: 010-5328-5678
- Official Email: admin-lz@xiaomi.com
- Official WeChat Account: 小米行政

4.3 Employee Development

Promotion

Xiaomi values the professional development of all employees and offers them opportunities to grow along with our business. We make promotion decisions based on performance and reward those significant contributors with incentives programs and promotion opportunities. To ensure sustainablity, we made significant efforts to develop our young talent. This was done through organizing our talent pool, building their overall competence, and offering fair and transparent paths for promotion.

Training

We provided a full range of training programs for employees worldwide, covering general knowledge, corporate culture, cutting-edge science and technology, management skills and more, to improve their overall professionalism, technical competency and leadership skills.

In 2019, we established an in-house training center called Qinghe University with a mission to "promote our group strategy, improve organizational capabilities, solve business problems and train Xiaomi talent." It provided online and offline trainings for employees from all departments and levels and encouraged them to take a more proactive approach to on-the-job learning.

In 2020, Qinghe University launched its online learning platform. The platform offered 469 online courses and 103 learning programs, and had more than 25,000 active online users. These programs are tailored for different users, including an introduction training program under the fresh graduate scheme, a leadership training program for managers, and programs on professional expertise. In 2020, over 12,000 employees used this platform.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	Number of participants	Average Training (Hours)	Content
Xiaomi Office	12,637	4	Improve software skills to improve work efficiency
Environment, Health and Safety	5,273	0.5	Introduce Xiaomi's environmental, health and safety policy, organizational roles, and objectives; provide training on the ISO14001 Environmental Management System and ISO45001 Occupational Health and Safety Management System
Leadership Program	2,940	20	Improve leadership capabilities of senior management
YOU Program	2,198	40	Provide fresh graduates with professional training, including hard and soft skills, to help them quickly transition from school to the workplace
Mentor Program	1,887	2	Match mentors for new employees to help them quickly integrate into the team and work
Mi Home Manager Program	1,485	24	Introduce scientific training path for store managers
Spark Open Classes	1,264	5	Design 8 training courses to help new managers adapt to their new role
Spark Camp	908	43	Improve capabilities of new managers in four areas: role positioning, goal achievement, people management and team building
Finance Program	618	43.4	Provide professional training for employees in Finance Department
Internal Training Camp	484	12.5	Invite external lecturers to improve abilities of our internal trainers

	Number of participants	Average Training (Hours)	Content
Management Sharing Session	404	1.5	Share leadership and team management experience through case studies
Torch Camp	275	68	Support mid-level managers in analyzing and solving problems through "learning by doing" activities
POM (Product Operation Management)	67	59.5	Develop 9 courses based on typical responsibilities of product managers, including "Operation of Strategic Needs and Insights", "Preparing New Product Launches", and "Pricing Strategy"
Ignite Camp	62	106	Identify outperforming senior managers and help them unlock their leadership potential

Recognition

In 2020, our employee training was recognized as follows:

Award	Issuer
2020–2021 (12th) China Talent Development Award — Best Learning Program: Spark Camp	*Training* Magazine
2020 National Corporate Learning Project Design — Silver Award: Torch Camp	The 5th National Learning Design Competition of the Chinese Society for Talent Development (CSTD)
2020 HeRo	Beisen Research Institute of Talent Management
2020 Future Potential Award: Qinghe School of Economics and Management	Executive Education Center of Tsinghua University School of Economics and Management
2020 Bo'ao Award — Outstanding Product Thinking Application Award	Online-edu.org

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. Customer First

Our users and their satisfaction form the foundation of our success. Our unwavering focus on providing the best user experience has established Xiaomi as a well-recognized brand globally. Our vision is to be friends with our users and to be the coolest company in their hearts. By treating all our users as our friends, we hope to learn from our users and grow with them.

Since our inception, we have made our users' needs our priority and cultivated a community culture with high user engagement. In 2020, after drawing lessons from our past service experience, we consolidated the customer service units of individual business departments into a centralized team at the group level to improve service quality. We further personalized MIUI's functions, upgraded our online and offline customer service experience, and actively organized Mi Fan activities. Through such efforts, we aspire to bring our users closer to us.

5.1 User service

Customer service centers

Our customer service centers are available 24/7 across various channels including telephone hotline, online chat, Weibo and WeChat. Upon receiving an inquiry or complaint, the central customer service team assigns the most appropriate specialist based on channel and user need so that inquiries are processed with the highest possible efficiency. To ensure the quality of our customer service, we implement comprehensive assessments and incentive programs based on multiple metrics such as response time, resolution rate, and customer satisfaction rating. In addition, we provide customer feedback to relevant business units in a timely fashion while constantly optimizing internal processes, services, and management.

Hotline: 400-100-5678

Website: https://www.mi.com/service/contact

In 2020, Xiaomi made improvements to customer service in the following areas: AI assistance, cross-departmental collaboration and VIP service. Firstly, by leveraging our AI capabilities, we upgraded our automated Q&A functions and other smart customer service tools this year. Secondly, our customer service department collaborated closely with other departments including internet services, logistics, and after-sales services on various projects, such as simplifying shipping addresses modifications and improving video subscription services. We also provided VIP services to mid- and high-end users. This year, Xiaomi's customer service hotline satisfaction rate reached 97.25%, and the online channel satisfaction rate reached 90.61%.

Xiaomi has a large and diverse product portfolio across multiple categories. To help users quickly locate the most relevant customer service agent for their product, we created a smart IVR system based on AI voice recognition. By simply saying a product name aloud, a customer service specialist for that specific product can be automatically assigned. Our current product match accuracy rate is higher than 90%.

In 2020, we offered end-to-end personalized service for Redmi TV MAX 98. The service includes pre-sale consultation, on-site evaluation, delivery and installation. We also provided specialized training for our service representatives and ongoing customer support. In 2020, the satisfaction rate for this service exceeded 98.5%.

After-sales services

We offer different after-sales services to meet the various needs of our users. We also expanded the geographic coverage of our after-sales service centers to offer greater convenience to our users.

- **In-store repair service:** We have 656 in-store service centers in China, covering 23 provinces, five autonomous regions and four municipalities. We added 136 stores in 2020, representing a 26% increase from a year ago.

- **Delivery repair service:** We have 18 specialized service centers. Users can deliver non-functioning or defective products to the service center, and the repaired/replaced product will be returned by courier. This service is free of charge within the warranty period.

- **Home repair service:** We offer on-site home repair services through 1,553 stores across the country. We added 553 stores compared to 2019, representing a 55% increase.

In 2020, in an effort to improve the response time of our after-sales service, we launched two fast-response services and incorporated response time into the evaluation criteria of our after-sales service teams. Our "one-hour quick repair" service allows a customer to schedule an in-store appointment through Mi.com, after which a specialist will complete product maintenance within one hour of a customer's arrival at the store. Through our "2-hour response" service, a user can make a request for home repair service through one of our after-sales channels, and a dedicated specialist will contact the user within 2 hours to schedule an appointment.

Xiaomi requires after-sales service specialists to pass a test related to their product coverage and obtain certification before providing services. In 2020, the after-sales team established 25 training centers in China, and all of our after-sales specialists obtained the necessary certifications. This year, more than 300 online and offline after-sales training activities were arranged, involving more than 10,000 employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Mi Homes

Mi Homes are official Xiaomi retail stores that operate our unique new retail business model and promote the Xiaomi brand. Mi Homes provide exceptional service to our users and also serve as a training facility for our employees. On average, each store displays over 300 product categories for users to experience first-hand. Mi Homes provide customers a high-quality shopping experience through a well-selected product portfolio that covers a wide range of daily usage scenarios, all operating inside a smart environment.

This year, we upgraded the service and brand image of Mi Homes. We introduced a 7-day unconditional return policy, which is a breakthrough in the 3C (computer, communications, consumer electronics) industry. For best-in-class store experience, we pay extra attention to details in our customer service, such as applying screen protectors to smartphones for free.

As of December 31, 2020, our Mi Homes covered 28 provinces and 267 cities. We are continuing to expand our offline retail network, and our goal is to have a Xiaomi store in every county across China.

Recognition

Our customer service quality has been recognized by the industry, as demonstrated by the awards below:

Name of Competition	Award
2020 "Golden Headset" China's Best Customer Center	Innovative Management Customer Center Award
2020 China Customer Contact Center	Excellent Service Award
2020 "Golden Headset" China's Best Customer Center	Excellent Intelligent Application Award
China Electronics Chamber of Commerce Top 10 Call Centers of the Year 2020	Outstanding Customer Experience Award

5.2 User Experience Upgrade

As our ecosystem and user base continue to grow, our vision to become friends with our users has constantly pushed us to improve our service quality. In 2020, we brought together the specialists from our front-line customer service, after-sales service, and logistics service teams into a single Service Experience Department. This new department tracks the latest industry trends, designs and implements new service initiatives, and continuously monitors service quality and performance. In addition, we incorporated user feedback into the performance reviews for all customer service functions, which enhanced our customer service management and helped to improve user experience.

We aim to improve our services from our users' perspective. Internally, we collected user feedback through forum posts, customer service channels and user surveys. Externally, we held workshops and organized face-to-face activities with our users to understand their feelings and accurately identify the areas for user experience improvement, followed by targeted measures.

In 2020, to promote proper hygiene under Covid-19, we organized the "Peace of Mind Month" event. We provided users with services such as free cleaning of household appliances and mobile phone disinfection. A total of 208,442 orders were completed.

We also launched a RMB49 battery replacement promotion activity where we providing battery purchase at half-price and battery installation for 23 mobile phone models. This affordable way to extend the smartphone life cycle was well-received by users, prompting us to extend the event by three months. We completed a total of 230,380 battery replacements.

We rolled out the "Mi Fan Experience Officer" project to better understand user needs. In October 2002, we held the first event where we recruited Mi fans from the Mi Community forums to express their opinions on our household appliance products, allowing us to collect user feedback on deficiencies in the customer service experience. In 2020, a total of 3,740 Mi Fans took part as experience officers, directing us in targeted improvement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We have found that many senior citizens struggle with using smartphones. To help address this issue, we held an activity during Thanksgiving 2020 where our service specialists met with elderly users face-to-face and answered their questions about how to use smartphones.

About 6,000 copies of "Smartphone Guidance Brochure for Parents" were ordered on Mi.com and over 30,000 hard copies were placed in stores for free. We have revised and released the second version based on the feedback from users. By the end of 2020, an online version was also made available, attracting more than 2.2 million views.

5.3 **Mi Fan Culture**

Xiaomi is one of the few technology companies that has its own vibrant fan culture, and Mi Fans underpin the Company's growth. We are keen to create and nurture our Mi Fan culture by proactively involving our fans in product development, branding and sales. To ensure that our Mi Fans across the globe can enjoy similar experience, our headquarters provides technical guidance to regional offices to replicate successful Mi Fan operations globally.

Deep user engagement

We value opinions and feedback from our users. We invite our users to participate in beta testing and initial project evaluation through online and offline interactive activities, and allow them to enjoy the product development process.

Mi Community, the official forum where Mi Fans gather, serves as the main channel for us to engage with core fans and obtain feedback. To better serve Mi fans, we merged the MIUI Forum and Mi Community in 2019 to establish the new Mi Community, which provides functions such as company news, product updates, internal testing feedback, bonuses and rewards, Mi fan interactive forum, and more. By the end of 2020, the number of cumulative Mi Community users reached 120 million with more than 20 million monthly active users. The Mi Community has over 300 social groups across various fields and generated over 365 million views of community content.

The Mi Community posts over 20,000 times per day on average. To efficiently process user feedback, Xiaomi designed a mechanism where Community staff will gather similar problems under a single project and invite relevant users to vote. When a resolution has been made, all users with interest in the project are notified simultaneously. In 2020, more than 2 million suggestions and feedback comments were posted, and over 40 million users participated in voting.

Xiaomi established a new internal testing platform in 2020. This comprehensive testing platform solution covers the entire testing lifecycle including project launch, selection of testers, feedback collection and processing, and service promotion. We carried out more than 100 system and app tests on this platform, drawing participation from more than 4 million users, which contributed to the successful release of MIUI 12 and MIUI 12.5 in 2020.

After the release of MIUI 12 in April 2020, more than 1,000 users posted suggestions to optimize the notification display area when the smartphone is in landscape mode. A proposal was later formulated, attracting over 145,000 users. After receiving the voting result, the community officials immediately adopted the user suggestions and worked with the relevant product teams to implement the changes. This service was widely praised by our users

Xiaomi regularly invites leaders from all departments to communicate with users and listen to their needs. In 2020, Xiaomi held 12 "Internal Roast" events and 45 "Micro-blog MIUI Leader Online" activities, involving 87 business unit leaders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In September 2020, Xiaomi held a series of Q&A sessions between users and key product managers. A total of 87 managers and heads from various business divisions participated, including smartphone, laptop, and TV, and drew more than 200,000 users and over 260 million cumulative Weibo views. These activities helped Xiaomi better understand the needs of its customers and gain new ideas for product improvement.

Together with Mi Fans

As a young and innovative company, Xiaomi hopes to build on the enthusiasm and imagination of young Mi Fans to further develop the Mi Community. In 2020, we attracted our global Mi Fans to participate in a wide range of activities to express their sincerity and passion for Mi culture.

Mi Fan Story is a series of documentaries filmed by Xiaomi's international community, recording stories of Mi Fans that capture their sincerity and love. The first episode of Mi Fan Story was filmed in Pakistan. It tells the story of two brothers who left their home in a remote mountainous area to pursue the career they love, and finally changing the fate of their family. In the coming years, the international Mi Fan community will record more similar stories.

Mi Renovation: Focusing on Mi Fan homes with renovation needs, Xiaomi invited professional designers to create a practical and smart "dream designer home" using Xiaomi's full set of AIoT products. The project was an immediate hit among Mi Fans. So far, the first phase has been launched in Russia, Germany and Thailand. Mi Renovation will be launched in more countries such as Vietnam, France and Mexico to help Mi Fan families create their dream homes.

ShotByMi is a photography competition hosted by the global Mi Community. Users can submit photos taken with a Xiaomi smartphone. Since 2019, Mi Fans from over 170 countries have joined the competition, submitting more than 210,000 photos.

Mi Explorer is one of the traditional Mi Community activities. In 2020, Mi Fans were invited to explore the world with Xiaomi products and produce high-quality content for sharing with the Mi Community and on social media platforms. By the end of 2020, the international Mi Community had held more than 20 explorer activities with more than 50,000 applications from more than 120 countries and regions around the world. More than 300 Explorers were selected and more than 800 works of original and high-quality content were produced using Xiaomi products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Mi Pop 24 New Year: On New Year's Eve in 2020, Xiaomi and Mi Fans from each of the world's 24 time zones organized a New Year's Eve party. Xiaomi live broadcasted 24 separate New Year's Eve countdowns with Mi Fans and delivered highly creative New Year greetings. This was the first time Xiaomi celebrated New Year's Eve together with Mi Fans around the world.

6. Business Ethics

We are committed to conducting our business activities in compliance with all laws and regulations, and we operate under the highest business ethics standards. We encourage our employees to follow the code of business ethics and uphold proper market competition guidelines to maintain a fair and transparent business environment. Together with our stakeholders, we are committed to generating additional business opportunities through the professionalism of our team, the high quality of our products and services, and our solid business reputation.

At the Group level, we introduced a compliance manual for key regional markets to systematically ensure compliant operations globally. For our products, we applied compliance metrics into the whole product life cycle including design, development, factory inspection, sales and marketing, and after-sales services. For our employees, all employees are required to sign the Employee Handbook and the Employee Code of Conduct and abide by their rules. Furthermore, we explicitly require our employees to conduct all business under the principles of integrity, honesty, and compliance.

As an industry leader, Xiaomi deeply understands its social responsibility with regards to business ethics and has continued to promote our principles across our value chain. We have established a comprehensive compliance management system that covers our upstream and downstream partners to meet the evolving compliance requirements in different regions and markets.

6.1 Privacy Protection and Information Security

Privacy protection and information security are highly important to Xiaomi, and we continuously make improvements to our privacy protection and information security systems. In 2020, we introduced the Xiaomi Privacy Brand, which is applied to numerous Xiaomi products and service offerings. It represents our focus on corporate responsibility, user control, openness and transparency, cybersecurity, and legal compliance. Our practices in privacy protection and information security are recognized as one of the best in the industry.

小米隐私

In mainland China, Xiaomi complies with *the Cyber Security Law of the People's Republic of China,* the *Decision of the Standing Committee of the National People's Congress on Maintaining Internet Security,* the *Decision of the Standing Committee of the National People's Congress on Strengthening the Protection of Internet Information*, and so forth. In overseas markets, we comply with the *General Data Protection Regulation (EU GDPR), the Privacy Act of 1974 (2015 Edition),* the *Act on the Protection of Personal Information of Japan* and other applicable laws and regulations.

Management System

Xiaomi established the Information Security and Privacy Committee, which comprises more than 100 specialists and more than 10 data privacy lawyers, to oversee the security and privacy management of the entire company. To further provide guidance on corporate actions, we established the Information Security and Privacy Department, the Smartphone System Security Department and the Security Office.

To ensure our compliance with all applicable laws and legislations, we conducted thorough research on privacy-related regulations around the world. By the end of 2020, we identified legal requirements in 82 countries and regions and established a database of legal policies. We conducted risk assessment throughout the product lifecycle to ensure our practices in data collection, storage, utilization, and sharing are in full compliance with all applicable regulations.

We have built data centers in six countries to ensure data security and compliance. In 2020, Xiaomi carried out a comprehensive evaluation for all products exported to the European Union, to further strengthen data privacy and security.

In 2020, Xiaomi revised 36 internal policy documents on information security and privacy protection. We also established additional standardization processes and documents on security assessment. These include the *Management Procedure on Security and Privacy Vulnerabilities,* the *Security Assessment on Third Party System or Service,* the *Security Testing Procedure on Mobile Applications,* the *Testing Requirements on Server-side Security* and the *Testing Requirements on Smart Hardware Devices Security.*

Xiaomi also developed a series of tools to ensure that the privacy protection requirements were properly met. We established a privacy compliance application platform and testing platform to ensure that our business activities met the requirements in various scenarios. We established a system that monitors and manages the overall information security and privacy of relevant business units through 16 key metrics, such as the security qualification rate of smart hardware products, security and privacy breach on-time repair rate, and so forth. We also established a scorecard to evaluate and manage information security and privacy protection across departments through quantitative measures.

After obtaining three ISO certifications in Information Security and Privacy Protection (ISO/IEC27001, ISO/IEC27018 and ISO/IEC29151) in 2019, Xiaomi passed the surveillance audit of ISO27001 Information Security Management and received the certification for ISO27701 Privacy Information Management System in 2020.

Xiaomi's privacy policies and practices meet the assessment standards of corporate privacy and data governance practice by TrustArc, a world leading data privacy management company. We were also granted the Privacy Seal certified by TrustArc.

TRUSTe Certified Privacy Powered by TrustArc

Xiaomi privacy official website: https://privacy.miui.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

System Defense

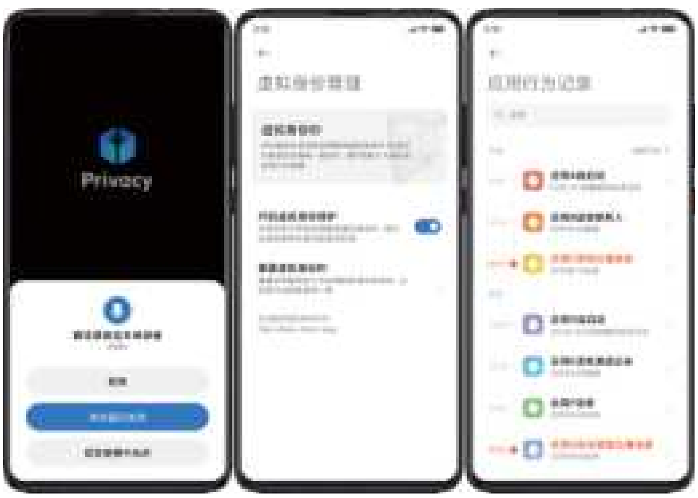
This year, we upgraded the MIUI operating system to improve information security and ease of use. Through better integration of software, hardware and services on smartphones, we significantly improved end-to-end information security and privacy protection for users

Application Compliance

This year, we strengthened the information security review process for our apps. Xiaomi App Store conducted strict virus scanning, privacy testing, compatibility testing and manual review before applications were published. In 2020, over 500,000 applications for app store listing were rejected due to failure to meet privacy protection requirements. To prevent privacy violations, our automated privacy testing platform examined how apps collect user information and request user authorization for data access. By December 31, 2020, thousands of apps had been tested on this platform.

On April 27, 2020, Xiaomi released an updated version of its operating system MIUI12, which made breakthroughs in information security and privacy protection with "Flare", "Interceptor", and "Hidden mask" functions. MIUI12 passed the enhanced privacy test of the TUV Rheinland Android system.

- The Flare function records behavior by an app that could raise privacy concerns and sends reminders to users to take action
- The Interceptor function enables users to completely block unauthorized use of the camera and wake-up function in the background. It erases sensitive information from shared photos to prevent user privacy leaks
- The Hidden Mask function provides apps a virtual ID number for identification purposes to reduce the risk of leaking personal information



Logistics Service Privacy Protection

As Xiaomi's online direct sales business scales rapidly, we attach great importance to user privacy protection in our logistics services. For example, we partially conceal customer information on the shipment label for small- and medium-sized product packages. For household appliances, a virtual contact number is displayed. In each quarter of 2020, more than 13 million Xiaomi e-commerce orders were protected by this feature.

Training and Communication

We encouraged our employees to identify and report privacy vulnerabilities. We conducted privacy-related training and promoted relevant discussions within the industry.

- Training on information security and privacy awareness, reaching 84% of all employees
- 31 security training sessions, covering more than 1,100 participants
- 16 sessions of IoT security training, covering more than 300 participants
- 4 training camps for information security and privacy specialists, involving 179 employees

In 2020, Xiaomi held the first Security and Privacy Publicity Month, which included six themes: the Xiaomi Science and Technology Park Activities Week, the Information Security On-site Lecture Week, the Online Privacy Protection Lecture Month, the Online Knowledge Contest, the CTF Hacking World Cup, and the Special Training Camp. These activities raised privacy protection awareness among all our employees and among general internet users.

In 2020, we established the "Blue Army Project" with leading companies in different sectors. We encouraged cooperation among companies to overcome competitive barriers and create a win-win situation. We tested product security vulnerabilities through network security simulations to enhance security capability across industries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Xiaomi Security Center established a domestic data vulnerability reporting platform. We also partnered with HackerOne and launched a vulnerability reporting program with a reward of up to RMB1 million. We also invited professionals to support and enhance the privacy protection functions of Xiaomi products.

Xiaomi actively participated in industry activities for information security and privacy protection. In 2020, Xiaomi specialists shared their experiences at 31 events to promote the development of the information security ecosystem.

Conference	Speech
WISE 2020 King of the New Economy Conference	"Creating a 'Smartphone x AIoT' Security and Privacy Ecosystem"
8th ISC 2020 Internet Security Conference	"CXO's view: Practical Crypto Science — Building a Great Network Security Ecosystem"
2020 China Software Research and Development Management Industry Technology Summit	"Intelligence and Platformization of IoT Security Risk Control Systems"
Data Connectivity and Security Development Summit of the Guangdong-Hong Kong-Macao Greater Bay Area	"Security Compliance Practices of Multinational Enterprises"

Awards and Recognition
In 2020, Xiaomi won various awards and recognitions related to privacy protection.

Competition/Association	Award
2020 KCTF Spring Competition (Defense)	Second prize
GeekPwn 2020 International Security Geek Contest	Winner of the 2020 New Infrastructure Security Competition
2020 Butian Cup Hacking Competition	Third prize in the Industrial Crane Remote Control Hacking
Tianfu Cup International Network Security Competition	Best Vulnerability Replication Award
2019 CCUA Data Center Association	Data Center Implementation Model Project (Haidian Park Room)
2020 Network Data Security Compliance Assessment	Outstanding Case
National Network and Information Security Management division of the 2020 National Industry Professional Skills Competition	Third prize for Information Security Administrator

6.2 Advertising Compliance

Xiaomi strictly complies with applicable laws, regulations and international practices in the markets where we operate, including the *Advertising Law of the People's Republic of China*, the *Advertising Regulations,* and the *Policy for Administration of Internet Advertising*. We also developed the *Standard on Customer Qualification Information Review,* the *Standard on Advertising Material Review* and other internal policy documents. We established a cross-departmental advertising review mechanism, which involves the Legal Department, the Public Relations Department, the Government Relations Department, the Quality Committee and other responsible business units. These departments worked together to review advertising content and quality, as well as the credentials of our advertisers. We also established an advertising complaint resolution mechanism whereby the relevant department will promptly investigate and provide feedback on user complaints.

We hold internal weekly and monthly meetings as well as training activities to communicate the latest advertising policies and raise compliance awareness. During these meetings, we shared recent updates in advertising best practices, investigated relevant risks, and enhanced the team's overall advertising review capabilities.

6.3 Intellectual Property Protection

As a leading innovator in the industry, Xiaomi respects and protects the results of our research and development. We strictly abided by our intellectual property protection system as we work towards maintaining a transparent, open and fair business environment and orderly market.

Xiaomi strictly abided by the applicable laws and regulations in all areas of operation, including the *Patent Law of the People's Republic of China*, the *Copyright Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China*, and the *Anti-Unfair Competition Law of the People's Republic of China*. Internally, we produced a series of policy documents in intellectual property protection, such as the *Regulations on Enterprise Intellectual Property Management, Measures on Patent Reward and Remuneration Management of Xiaomi Corporation*, and *Brand Use and Management System of Xiaomi Corporation*. In addition, our Legal Department is responsible for managing intellectual property across the Group. We appointed intellectual property specialists in each business unit to ensure proper implementation. A risk prevention mechanism was established to investigate, control and prevent infringement risks across the product lifecycle.

While we protect our own intellectual property rights, we also respect those of others and work to prevent their infringement. During the past few years, we have signed a number of important cross-licensing agreements with companies such as Qualcomm, Nokia and NTT DoCoMo. In our cooperation with suppliers, universities and scientific research institutes, we specified the ownership of intellectual property rights in the agreement. We investigated intellectual property risks in new markets and ensured our new products and technologies in those markets comply with local laws and regulations. Moreover, we joined technical standard-setting bodies in mainland China and overseas and abided by relevant intellectual property policies and regulations.

We actively carry out intellectual property protection training. This year, we organized more than 70 training sessions focusing on brand use and protection, patent knowledge and risks, and more. The training activities attracted more than 1,700 participants.

Patent Protection

We established an early warning mechanism to track and analyze trends in technology and product development and enhance our ability to respond to patent disputes. In addition, we established follow-up procedures for copyright and patent infringement. We established clear procedures on collecting information and evidence related to infringements and formulating the most appropriate response. This effectively protected our intellectual property rights.

Xiaomi fully leverages the international intellectual property framework to safeguard its business. We owned 516 design applications on the International Registration of Industrial Designs (the Hague System). Xiaomi is the first Chinese company ranked among the top five in the Hague System, demonstrating our strength in design innovation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Xiaomi was awarded *2020 Beijing Intellectual Property Demonstration Unit, 2020 Capital Intellectual Property International Exchange and Cooperation Base,* and *Copyright Protection Center of China (CPCC) Top Ten Copyright Partner*.

Xiaomi Intellectual Property Protection Platform: https://www.mi.com/intellectual

Trademark and brand protection

Xiaomi seeks to prevent the infringement of Xiaomi's brand and trademark through the following:

- Compliant use of trademark: We established a global trademark screening mechanism to detect potential infringement of Xiaomi trademarks

- Trademark rights confirmation: We established a trademark application system to better establish our trademark globally. We also developed a trademark monitoring system to track trademark registration by third parties that may infringe our trademarks and a dispute resolution strategy to appropriately respond when such cases arise

- Trademark rights protection: We established a complete anti-counterfeiting trademark protection system to monitor third-party products sold online and offline

Xiaomi has zero tolerance for counterfeit goods. We cooperated with major e-commerce platforms to jointly safeguard our brand by carefully screening for early warning signs, promptly identifying and resolving counterfeit cases, and conducting targeted offline anti-counterfeit operations. We also participated in special operations organized by Chinese customs agencies to prevent the import and export of counterfeit goods. Additionally, we established a global anti-counterfeit and trademark rights protection system for products sold by third parties. Finally, we jointly conducted offline anti-counterfeiting activities with our distributors and retail stores, and participated in anti-counterfeit knowledge sharing with industry peers. In 2020, we helped process administrative and criminal anti-counterfeiting cases involving a total value of RMB32.56 million. In addition, in 2020, we identified and deleted a total of 271,330 online links that infringed our trademark rights.

6.4 Anti-Corruption and Anti-Bribery

Xiaomi also maintains a zero-tolerance policy towards corruption and bribery. In China, we strictly followed the *Criminal Law of the People's Republic of China*, the *Anti-Unfair Competition Law of the People's Republic of China* and other relevant laws and regulations. In overseas markets where we operate, we also identified and abided by relevant local laws and regulations. We have established a comprehensive anti-corruption system, including governing rules and filing system to be executed by a professional team. In 2020, we revised the *Code of Integrity of Xiaomi Corporation*, the *Gifts, Hospitality and Travel Funding Management Regulations of Xiaomi Corporation* and the *Conflict of Interest Management Regulation of Xiaomi Corporation*. We developed tools to further improve anti-corruption risk identification. In addition, we are determined to protect the rights and interests of our partners to ensure healthy business development.

Active Monitoring

In 2020, we built a comprehensive data monitoring platform which was able to automatically screen and identify corruption-related risks, such as potential conflicts of interest, suspicious employee behavior, irregular payment records and disbursement of loans, and unusual terms in business contracts. Through data analysis, we were able to improve the efficiency and accuracy of this platform. In 2020, all of our businesses were covered by our monitoring platform.

We continued to strengthen anti-corruption practices in our procurement and supply chain processes. In 2020, we developed a supplier compliance platform that stores key supplier information such as business operations, taxation, assets, and recent news and public perception. Leveraging our AI capabilities, the platform was able to accurately map out corporate relationships and analyze operating risk, public relations risk, and more. This information helped us make better procurement decisions. In 2020, we organized two anti-corruption training sessions, which 98 procurement personnel attended.

Whistleblowing

We established multiple channels, including email, telephone and online channel, for reporting corruption-related behavior. The platform's services are available 24/7 in 60 languages. It is open to our mainland China and overseas employees, customers, investors and partners.

Email: tousu@xiaomi.com

Phone: 400-120-3505

Website of the reporting platform: https://integrity.mi.com

We released the *Regulation on Whistleblowing Management of Xiaomi Corporation* to manage relevant cases in a closed-loop manner. All suspected fraud and corruption cases are fully investigated by professional staff in accordance with internal policies. If a case constituted a crime, the investigators would refer the case to the proper judicial authority for further handling and prosecution.

We established the *Regulation on Whistleblower Protection of Xiaomi Corporation* and *Regulation on Whistleblower Reward of Xiaomi Corporation* to encourage employees to report misconduct. We ensure that whistleblowers and their identities are properly protected, and keep all information confidential whenever possible .

Raising Awareness

Xiaomi emphasized the importance of anti-corruption and worked toward raising awareness among our employees. In 2020, we conducted an anti-corruption risk assessment on our main businesses. We surveyed 80 respondents from management and over 12,000 employees on the subject as we sought to identify blind spots within the Company. A targeted training session was also given to the board of directors.

Xiaomi improved integrity and compliance awareness through various activities, forums and seminars with industry experts.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

On November 19 and November 27, 2020, we conducted integrity, compliance and anti-corruption trainings for senior management at Xiaomi Science and Technology Park. We invited professors from the National Prosecutors College and prosecutors from the Second Procuratorate of the Haidian District People's Procuratorate to share anti-corruption knowledge with our senior management. A total of 249 people participated with 100% satisfaction.

In 2020, we produced 3 short films on anti-corruption, based on real cases. The materials serve as teaching tools for all employees and raise awareness around integrity.

At the 2020 Xiaomi Supplier Conference, our Vice President and the head of Smartphone Department, Mr. Zeng Xuezhong, promoted integrity and anti-bribery to our business partners. Nearly 70 suppliers participated in this event and pledged to create an environment of integrity and honesty.

6.5 Anti-money Laundering

As our business expands along with the development of our Airstar Digital Technology fintech platform, we realized the importance of anti-money laundering controls. Our Internal Control and Internal Audit Department and our Finance Department jointly identified financial risks that might expose our business, and implemented strict measures to minimize risks associated with money laundering.

We have established a series of internal control regulations on anti-money laundering, such as the *Regulation on Anti-Money Laundering Management*, and the *Internal Control Regulations on Mi Credit for Anti-Money Laundering and Anti-Terrorism Financing*. We also set up Anti-money Laundering and Anti-Terrorism Financing teams, who are responsible for drafting and revising internal relevant regulations, setting anti-money laundering objectives, and implementing regulations. The teams appointed dedicated anti-money laundering officers to take charge of day-to-day implementation.

We adopted a holistic approach in our day-to-day operations, from prevention to monitoring to case processing. At the same time, we also established a comprehensive emergency response plan. Once a risk exposure was identified, the Risk Management Department would evaluate the exposure and responds immediately. The department would submit a post-case brief in a timely manner to document the cause and description of the event, the resolution process and result, the responsible parties, and areas for improvement. The department would provide suggestions to mitigate the risk going forward.

7. Value chain

As a key player in the value chain, Xiaomi has promoted its partners' development through business cooperation, technology sharing, as well as financing support. In an increasingly globalized world, our vision is to collaborate long-term with our partners and to produce win-win outcomes. We believe cooperation on sustainable development is key to realizing this vision. To that end, we fully leverage Xiaomi's strong technological capabilities and business resources to help suppliers improve their sustainability performance, to promote industry standardization in frontier fields and to support the growth of small- and medium-sized enterprises through digital finance. As such, we seek to extend Xiaomi's sustainable value across the value chain.

7.1 Supply Chain Sustainability

Xiaomi is committed to closely engaging with its suppliers to promote sustainable development. As a responsible partner, we work towards taking industry sustainability to the next level, creating business models for the harmonization of the economy, environment and society, and facilitating a sustainable ecosystem.

Along with our suppliers, we abide by the applicable laws and regulations of the markets that we serve, while following recognized international standards and conventions, thereby raising the bar for management of environmental and social risks. With reference to the *Responsible Business Alliance Code of Conduct*, and the *Joint Audit Cooperation Supply Chain Sustainability Guidelines*, SA8000, ISO14001, ISO45001 and in terms of our assessment on social risks embedded in the supply chain, Xiaomi has developed relevant policies such as the *Supplier Social Responsibility Code of Conduct* and the *Conflict Minerals Policy*. We require our suppliers to sign and adhere to *the Supplier Social Responsibility Agreement*, which covers labor, health and safety, environmental protection, business ethics, management system, and evaluation and improvement. As of December 31, 2020, more than 95% of our suppliers signed the *Supplier Social Responsibility Agreement*.

Management

A full-cycle and cross-departmental mechanism for supplier management was established under the Procurement Committee. This mechanism governs the registration, onboarding, qualification, and evaluation of suppliers. The supplier relationship management (SRM) system was also optimized through the addition of functions including supplier acceptance, suspension, self-assessment, on-site inspection, scoring, and so forth. This further strengthened the management of environmental and social risks in the supply chain.

Supplier onboarding

When new suppliers are introduced, Xiaomi carries out strict internal approval processes to ensure the new suppliers meet our requirements. To confirm compliance, new suppliers must either provide audit reports by third parties or accept an on-site audit by Xiaomi. If any red flags are identified, the supplier will not be qualified until the issue is rectified.

Xiaomi attaches equal importance to the management of suppliers of ecosystem products. We have formulated *Regulations on the Management of Xiaomi's Ecosystem Suppliers* to regulate supplier qualification and the continuous evaluation of existing suppliers. At the stage of onboarding, sustainability performance of suppliers is taken as an important criterion. Companies that do not meet the social responsibility standards will be rejected.

Audit

Since 2018, Xiaomi has carried out social responsibility audits on our core suppliers covering environment, occupational health and safety, labor rights, and other aspects. We encourage suppliers to actively establish social responsibility management systems and obtain relevant certifications. We require underperforming suppliers to rectify their standing, and we penalize those who fail to make timely corrections. Xiaomi is keen to assist suppliers in rectifying issues and building capabilities through coaching, resource allocation and special assistance projects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2020, Xiaomi issued the *Xiaomi Supplier Responsibility Audit Procedures* to further standardize the working mechanisms. We continued to audit our suppliers on social responsibility performance. Our audits cover selected core suppliers, suppliers whose performances were below average in the previous year, and newly introduced suppliers. We require all our audited suppliers to complete and report the rectifications of the identified problems within four months. In 2020, Xiaomi selected 46 suppliers for audit and completed 40 audits. We rated the suppliers in terms of business ethics, child and underage labor, forced labor, non-discrimination policy and and humane treatment, freedom of assembly and communication, environmental permits, hazardous substance management, general waste management, exhaust gas emissions and noise management, wastewater and rainwater management, energy conservation and emission reduction management, fire safety and emergency planning, employee health and safety, food, sanitation and housing and management system. For one of the new suppliers, onboarding was suspended pending rectification of exhaust gas issues identified during the audit.

Capacity building

Xiaomi is committed to helping suppliers build their capabilities. We understand that our suppliers' social responsibility is critical to the sustainability of our operations, so we actively look for ways to improve their capabilities.

During the 2020 Supplier Conference, we gathered and exchanged views with nearly 70 suppliers on what our cooperation had achieved and how we could further collaborate. We hired a third-party professional organization to provide social responsibility training for suppliers and urged participants to apply what they learned. We leveraged diversified channels to promote social responsibility awareness among suppliers, including internal training, supplier conferences and online activities. This year, our online social responsibility training programs hosted more than 1,500 managers from our suppliers.

In 2020, Xiaomi selected 14 core suppliers in the Pearl River Delta region to participate in the "Green Supply Chain Innovation Pioneer Project" training event organized by the Social Responsibility Committee of the China Electronics Industry Standardization Technology Association. The training covered a wide range of themes including green supply chain management, green design and production, green marketing and recycling, and energy management in the electronics industry. Our suppliers actively participated in the project, receiving most up-to-date advice and instruction for professional sustainable management capabilities.

In December 2020, our smartphone department invited a professional third-party agency to provide training for sourcing personnel in the supply chain on the latest social responsibility policies and trends. The training covered topics including social responsibility management, supply chain risks, risk response and brand management. Participants learned how social responsibility risks influenced the sustainable operations of business and improved their ability to deal with such risks.

Partnering with operators and professional organizations, we created subject-specific programs, that incorporate current critical issues and future trends into account to build up the competence of our suppliers. After identifying key issues that have a significant impact on sustainability, specialized support plans will be formed and implemented for our suppliers. We actively recommended industry-leading practices to suppliers, help them to grade relevant issues, form improvement plans, and regularly report on and review the completion of those plans. These efforts have been well received by our suppliers. After a year of hard work, suppliers have made great improvements in energy-saving and emission reduction, women's labor rights, hazardous materials management and other sustainability areas. We plan to launch a larger and longer-term supplier capacity improvement project next year.

Conflict Minerals Management

As a responsible corporate citizen, Xiaomi promises not to purchase or use conflict minerals that directly or indirectly fund armed organizations in the Democratic Republic of the Congo and its neighboring countries, and we also require suppliers to abide by this commitment. We take the measures necessary to trace the origin of the conflict minerals used in suppliers' products. We require our suppliers to investigate the origin of conflict minerals contained in their products following the Organization for Economic Co-operation and Development (OECD) *Due Diligence Guidance: towards Conflict-free Mineral Supply Chains* and the Responsible Minerals Initiative (RMI) audit guidelines. We have incorporated proper conflict minerals management in the core supplier audit checklist. Suppliers that fail to comply with the requirements face penalties including suspension or termination of the partnership.

7.2 Xiaomi's Ecosystem

Xiaomi's goal is to become a pioneering leader in building a new lifestyle in the digital era. On August 16, 2020, Xiaomi Corporation officially upgraded its strategy for the next decade: "Smartphone × AIoT." This strategy restated the importance of smartphone of our business, while our AIoT platform will revolve around smartphones to build up a smart living ecosystem. In the meantime, this also brought more potential for our Xiaomi's ecosystem partners.

Ecosystem partners

Over the years, starting from smart homes, Xiaomi has been actively building up its ecosystem. We strive to work with our partners to achieve the ultimate goal by harnessing our AI and IoT technology capabilities to create more AI-powered usage scenarios in our everyday life.

Since 2013 when we first launched the Xiaomi IoT developer platform, we have built up our vibrant IoT ecosystem. We have encouraged an increasing base of developers to employ their specialties to contribute to the areas of smart hardware access, smart hardware control, automation scenarios, AI and new retail channels. This year, Xiaomi maintained its leading position in consumer IoT platforms worldwide. By the end of 2020, 325 million devices were connected to the Xiaomi IoT platform.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The number of connected devices (excluding smartphones and laptops) reached

The Monthly Active User (MAU) of our AI assistant in December 2020 reached

As our ecosystem brands grow, Xiaomi also continues to provide more support to our ecosystem companies. We have developed the "AI-powered Open Platform for Smart Homes." This is an open platform where software and hardware suppliers, as well as individual developers, are able to conduct their AI-based research and development on a variety of usage scenarios and software and hardware services. Further, we provided all-around support to ecosystem companies in product definition, industrial design, quality management, and supply chain management. Xiaomi's ecosystem investee companies have helped form a business moat for Xiaomi. At the end of 2020, we have invested more than 310 companies. Seven ecosystem companies were listed in 2020, bringing the total number of listed ecosystem companies to 31.

The partnership with Xiaomi and its investee companies have improved Xiaomi's brand awareness. In 2020, Xiaomi won multiple awards including BrandZ™ Top 100 Most Valuable Global Brands (No.81) and BrandZ™ Top 100 Most Valuable Chinese Brands (No.5).

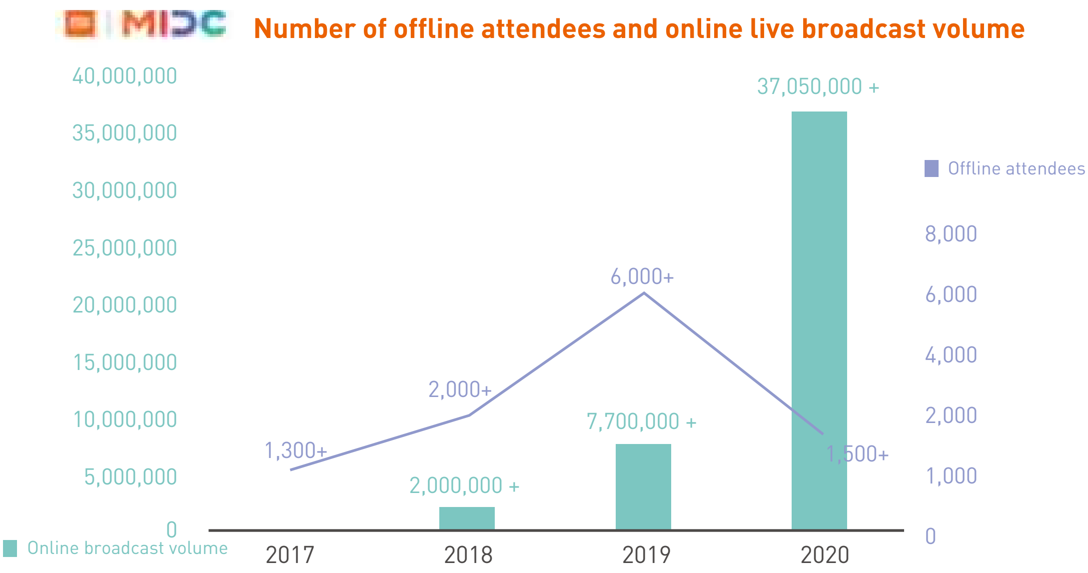
Youpin brand

As a boutique e-commerce platform, Youpin plays an important role in Xiaomi's "new retail" strategy. Adhering to Xiaomi's mission of "building amazing products with honest prices," Youpin is committed to providing high quality products. At present, the platform has covered all major categories, including daily necessities, kitchen appliances, home appliances, smart devices, digital entertainment, apparel, travel, baby and children products, and so forth.

Youpin has its unique branding. We included third-party brands with excellence in products, design and supply chain, and provided extensive support to increase brand recognition. Youpin provided support in terms of supply chain resources, product design, intellectual property rights, and sales and marketing for our third-party partners. We hope that, with such collaborative efforts, Youpin can provide users with a high-quality e-commerce platform to serve customer needs for better life. Currently, Youpin has partnered with nearly 100 brands.

MIDC

"Let everyone in the world enjoy a better life through innovative technology" is not only the mission of Xiaomi, but also unrelenting pursuit of every scientist, engineer and developer around the world. Every year since 2017, Xiaomi has hosted the MI Developer Conference (MIDC) to share experience and knowledge among global developers, helping us to realize our mission with partners who share the same values.



With the theme of "Technology for Life," the 2020 MIDC discussed "how to enable technological innovation to reach and benefit everyone in the world." The conference included a keynote speech, an AIoT security summit, a technology exhibit and 15 online sub-forums. It had 44 live broadcast coverage and attracted more than 650,000 views of live broadcast photos, and a total of more than 37 million live broadcast views.

7.3 Financial Support

Through the communication with partners across the value chain, Xiaomi recognized the financial challenges our industrial partners are facing. With years of experience in the industry, we have developed a series of financial products with manageable risk to support healthy development of the manufacturing industry. Under Xiaomi's strategy of "manufacturing for manufacturers," our Fintech service platform, Airstar Digital Technology, offers our partners one-stop financial services from procurement to sales. We further enhanced our risk control models to develop standardized services that can be offered to our suppliers and partners in the industry.

As of the end of 2020, Airstar Digital Technology provided more than RMB90 billion of credit support for over 3,000 companies, reducing financing costs by an average of about 2% for small- and medium-sized enterprises. 150 companies obtained their first operating loans from Airstar. At the same time, we cooperate with ecosystem companies to apply these capabilities to other industries, including glass, plastics, agricultural products, logistics and textiles. As the corporate credit ecosystem further develops, we will be able to optimize financial resource allocation through Airstar Digital Technology to better serve the real economy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

7.4 Industrial Influence

We are devoted to the development of key projects that lead up to the advancement of overall industry. We actively joined industry association and standards organizations to promote the formulation of industrial standards and make contributions to set solid foundation for industry evolution. In 2020, Xiaomi was selected by entrepreneur leaders as the No.3 of "Fortune China's Most Admired Companies".

Participation in Organizations

As a pioneer in the OLA Alliance, SparkLink Alliance, and other industry organizations, we proactively promote industry development and take on important roles in numerous industrial alliances and standardization associations.

Alliance/Organizations of Standardization	Position
China Communications Standards Association (CCSA)	Council member
Artificial Intelligence Industry Alliance	Council member
Global System for Mobile Communications Association (GSMA) — Artificial Intelligence Work Group	Vice president
MPEG	Vice president
IoT Ecosystem Security Alliance	Vice director
Internet Society of China — IoT Work Committee	Deputy director
OLA Alliance	Vice director
SparkLink Alliance	Council member
Zhongguancun Association of Standardization	Council member
Wireless Power Charging (WPC) Alliance — China Standard Regulations Group	Co-president (Deputy chief)
China National Information Technology Standardization Association — Artificial Intelligence Committee	Deputy chief

Note: The chart above shows selected alliances and standards organizations in which Xiaomi participates.

Industry standards

Xiaomi actively led and participated in domestic industry standardization projects. We brought the expertise in areas such as smart home appliances, artificial intelligence, cloud computing, big data, biometric identification and sensors, wearables, fast charging, wireless charging, lithium batteries, VR/AR and privacy protection. At present, Xiaomi is one of the key players drafting national standards in wearables, IoT interconnection, smart household appliances, wireless charging, and other areas.

Standardization of mobile communication technology

As a council member of the 5G Application Industry Association, Xiaomi actively participated in the development of 5G wireless communication standards and contributed its research to 3GPP (3rd Generation Partnership Project). Xiaomi set up a pre-research team to join China's IMT-2030 6G Development Group for the development of 6G technology.

In 2020, Xiaomi participated in more than 200 meetings of major international standardization organizations, including 3GPP, MPEG and the Wireless Power Charging Alliance (WPC), and proposed more than 100 standardization cases. Over 300 employees participated in various standardization meetings in mainland China, such as CCSA and the National Information Security Standardization Technical Committee. We participated in more than 100 projects on the development of international, national, industry and group standardization.

Standardization projects	Standard category	Roles
Standard for a framework for structuring low altitude airspace for unmanned aerial vehicle (UAV) operations overview	International standard	Participating member
Standard for drone applications framework	International standard	Participating member
Standard for interface requirements and performance characteristics of payload devices in drones	International standard	Participating member
Standard for mobile gaming performance evaluation and optimization	International standard	Participating member
Guide for minor guardianship system in online mobile gaming	International standard	Participating member
Minimum allowable value of water efficiency and water efficiency grades for reverse osmosis drinking water treatment purifiers	China national compulsory standard (GB)	Major drafting member
Lithium-ion cells and batteries used in portable electronic equipment — Safety requirements	China national compulsory standard (GB)	Participating member
Information security technology — Mobile Internet applications secure development and lifecycle management guidelines	China national voluntary standard (GB/T)	Participating member
Information security technology — Online shopping services data security guidelines	China national voluntary standard (GB/T)	Participating member
Electromagnetic compatibility requirements for household appliances, electric tools and similar apparatus — part 2: Immunity	China national voluntary standard (GB/T)	Participating member
Measurement methods for electromagnetic fields of household appliances and similar apparatus with regard to human exposure	China national voluntary standard (GB/T)	Participating member

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Standardization projects	Standard category	Roles
Electrical self-balancing vehicle Electromagnetic compatibility Emission and Immunity requirements	China national voluntary standard (GB/T)	Participating member
Smart technology for smart home appliances — Special requirements for washing machines	China national voluntary standard (GB/T)	Participating member
Household service robots general safety requirements — Methods for measuring performance	China national voluntary standard (GB/T)	Participating member
Drinking water treatment equipment	China national voluntary standard (GB/T)	Participating member
Drinking water purification filter	China national voluntary standard (GB/T)	Participating member
General specification for front projectors — Mini projector	Industry recommended standard	Major drafting member
General specification for front projectors — Home theater	Industry recommended standard	Major drafting member
Methods of function testing for electronic projectors	Industry recommended standard	Major drafting member
Methods of performance measurement for electronic projectors	Industry recommended standard	Major drafting member
Smart family service platform based on big data — Evaluation technical specifications	Group standard	Participating member

Note: The chart above shows selected national and industry quality and safety standards that were drafted by Xiaomi or jointly edited by Xiaomi.

Cooperation with Universities

In 2020, Xiaomi continued its active cooperation with universities.

- Continued to work with Wuhan University on a joint AI laboratory and developed forward-looking, inter-disciplinary, and strategic research projects;
- Signed a framework agreement for strategic cooperation to enhance the integration of industry and education with Beijing University of Posts and Telecommunications. The research mainly covered communications, artificial intelligence and computer science;

- Jointly applied for a National Experimental Software School with Beijing University of Posts and Telecommunications and Wuhan University;
- Established Xiaomi & Tell Intelligent Internet of Things (AIoT) Joint Laboratory with CAICT Tell Labs;
- Established a joint AI laboratory with Shenzhen Cyberspace Science and Technology Laboratory in scientific research, talent training and technology innovation;
- Xiaomi's AI department co-developed projects with universities in China and overseas, including Peking University, Harbin Institute of Technology, Xiamen University, Beihang University, Beijing Institute of Technology, Northwestern Polytechnical University, Dalian University of Technology and the Georgia Institute of Technology;
- Cooperated with Southeast University on 6G pre-research projects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. Exploration of Social Responsibility

Since inception, Xiaomi has never stopped exploring ways to be more socially responsible. Our mission is to let everyone in the world to enjoy a better life through innovative technology. We remain steadfast in our mission to bridge the digital divide and make valuable contributions towards building a more inclusive and equitable society by harnessing technological advances.

As we closely observe and try to understand our society, we forge ahead with our core value of respecting equality. We identify real problems facing our world and find ways to promote social equality through our product and service offerings. We have initiated programs for universal accessibility, disaster warning and senior-friendly design, and promote social responsibility through our consumer products and relevant educational campaigns across the globe. To this end, we strive to achieve information equality through integration of technology and social responsibility, and promote a social responsibility framework unique to Xiaomi.

8.1 Disaster Warning

Mobile internet companies can leverage their inherent broadcasting capabilities to better respond to natural disasters and reduce losses associated with such events. A disaster warning system requires significant investment but has limited usage frequency and scenarios. We are one of the few companies that have devoted resources to developing such technology for non-profit purpose.

In 2019, Xiaomi cooperated with the "Institute of Care-Life" to develop an earthquake early warning system. Xiaomi was the world's first company to integrate the disaster warning feature into its smartphone operating system and AIoT platform. In 2020, the geographic coverage of our earthquake warning system was extended to more than 100 cities across China. We also optimized subscription notification settings and the format of low-intensity earthquake warning notifications. As of December 31, 2020, the system successfully generated 29 warnings of earthquakes above 4.0 magnitude, and sent approximately 9,445,961 alerts to users.

In 2020, at the Third Session of the Thirteenth National People's Congress of the People's Republic of China, Mr. Lei Jun, Xiaomi's Chairman and CEO and a representative to the National People's Congress, submitted a proposal titled: "*Recommendations on Accelerating the Use of Smartphones, TVs and other Smart Terminals to Build Public Service Systems such as Disasters Warning in China*." The proposal calls for active participation from scientific research institutes and technology companies in promoting the development of disaster warning system in China.

This year, Mi TV was connected to the national emergency broadcast of flood warnings, which was a breakthrough for broadcasting disaster warnings through the TV format. In the future, Xiaomi plans to cover more global regions with the disaster warning feature, to integrate more types of natural disasters warnings into more devices and to share our experience with more partners who hold the same values. Xiaomi will remain relentless in its efforts to safeguard everyone's life.

8.2 Equality and Inclusion

It is Xiaomi's strong belief that everyone has an equal right to information and opportunities regardless of race, age, gender, religious belief, and education. As such, we endeavor to introduce new technology that narrows the gap in accessibility.

2013

Start

A request from users of visual impairment on the official MIUI forum marked the start of accessibility development.

2016

Dedicated team and user community

A dedicated working group was formed to develop accessibility features; one of the world's largest accessibility community groups was established for feedback and inputs.

2018

Systematic approach

A holistic approach for accessibility development was initiated, to bridge the digital divide.

2019

Policy influence

Xiaomi's Chairman and CEO, Mr. Lei Jun, submitted a proposal on enhancing accessibility in society to the national congress.

2020

Accessibility 2.0

The upgrade brings accessibility to a whole new level, to cover more business, products, and scenarios in daily life.

In 2020, Xiaomi launched a dedicated website that introduces our views on accessibility inclusion and our accessibility designs.

Xiaomi Accessibility Website (Chinese only): https://accessibility.miui.com/

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Features Upgrade

In 2020, we made improvements to accessibility features.

Support for Hard of Hearing Users — Xiaomi wensheng

Xiaomi Wensheng is a hearing aid application that helps hard-of-hearing users in daily communication, by capturing audio information. It converts voice to text in real-time with an accuracy rate of 98% in Mandarin. Launched in 2020, it has already served more than 930,000 users.

Support for Hard of Hearing Users — AI Calling

AI calling is a newly added assisted calling feature embedded into the MIUI 12 operating system, which dedicated to help 27 million of hearing impaired people. It also supports customized greetings, switches between automatic and manual reply, and responds to identified spam callers automatically.

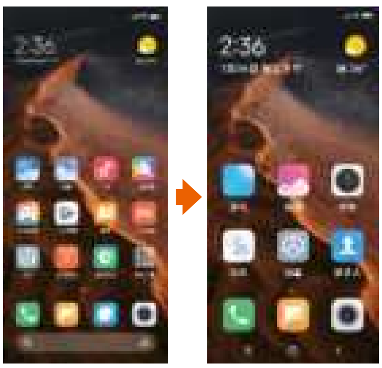
Support for Physically Disabled Users

For users with physical disabilities, Xiaomi has developed voice control and hand gesture features. More than 20 common gestures such as swipe up, long press and click are simulated and can be controlled by voice command. Additionally, users can use digital tags to label specific content on complex pages and perform specific actions based on voice instruction.

Support to Visually Impaired Users

MIUI 12.5 enables visually impaired users to "touch" interface elements and "read" screens through a touch feature to facilitate information transmission with vibration.

Xiaomi cares for the elderly and added corresponding features to meet their special needs.



Smartphones

Xiaomi smartphones provided enhanced features such as phishing call notification, call interception, privacy protection, family care, and remote assistance. In addition, we provided accessibility features such as three-click zoom-in features, on-demand reading, high-contrast text, high volume mode, touch and hold delay function, and more.

To better serve the elderly and other user with accessibility needs, a minimalist style is added to the latest MIUI system. Under this style, icons and fonts are larger, and one-click calling is available for convenience. As of December 31, 2020, this feature had been activated close to 200,000 times.

Smart Home

- Easy mode for the elderly with voice control on Xiaomi Smart TV;
- Food ordering, housekeeping and video-calling assistant are available through Xiaomi AI smart speakers, in collaboration with CHJ-Care, an elderly care institution in Beijing;
- Launched in cooperation with Shanghai's Huayang Road Sub-district and the Shanghai Science and Technology Senior Citizen Service Center, "Smart Companion" is a model room designed for the elderly that is furnished with Xiaomi's full set of smart home devices,

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Ecosystem Upgrade

Leveraging our diverse product portfolio and platform, we have been expanding our accessibility features from smartphones to wider product categories. We are in the process of optimizing accessibility for Mi Home, Mi Store and our AI assistant, improving our AI assistant's accessibility features, and examining the needs for accessibility on Xiaomi TV and Mi Box.

Xiaomi's ecosystem is empowered by its proprietary AI capabilities. We embraced more developers to join our AI assistant open platform, and provided them with our AI voice technology to promote the development of accessibility functions.

Growing Responsibility

In addition to making high-quality products, Xiaomi strives to contribute to a more equitable and inclusive social environment. In 2020, we provided smartphones, a set of smart homes devices and employment opportunities for people with disabilities. We are committed to making it possible for people with disabilities to live with dignity and enjoy equitable access to convenience and benefits brought by innovative technology.

Employment for People with Disabilities

In 2020, Xiaomi provided positions for 185 people with disabilities, of which 41 positions came from the AI Speaker Voice Labeler Project. We provide equal employment opportunity and recruit people with disabilities by valuing their performance instead of lowering our recruitment standard. This is a successful example of fair employment by Xiaomi, where disabled people are able to leverage their strengths.

Charity donations and support

In 2020, Xiaomi donated a batch of IoT and other lifestyle products to Buy42 where 35% of the employees are disabled. The value of the donation was over RMB940,000. On Thanksgiving Day, Xiaomi and Buy42 jointly organized a charity event to help disabled people better integrate into society.

8.3 Giving Back to Society

Being a corporate citizen, Xiaomi advocates that its success is closely tied to the healthy development of society and therefore should give back to society. We fully leverage our competitive advantage and resources to support public welfare initiatives including targeted poverty alleviation and education support.

Poverty Alleviation Through Education

Xiaomi deeply cares about the growth and development of the next generation and strongly supports fighting poverty through education.

Xiaomi Library and "Xiaomi Calligraphy Classroom"

In September 2020, Beijing Xiaomi Foundation and Xiaomi Corporation donated 6 "Xiaomi Libraries" and 6 "Xiaomi Calligraphy Classrooms" to Binchuan County, a poverty-stricken area in Dali, Yunnan. We donated RMB1 million worth of computers, books, whiteboards and calligraphy stationery.

Xiaomi Scholarships

From June to July 2020, Beijing Xiaomi Foundation set up *Xiaomi Scholarships* in 10 renowned Chinese universities. The first batch of RMB50 million will be used to support students and individuals of exceptional talent from impoverished households.

Public Welfare Promotion

Xiaomi fully leverages its broad hardware and internet services user base to further promote awareness around social responsibility.

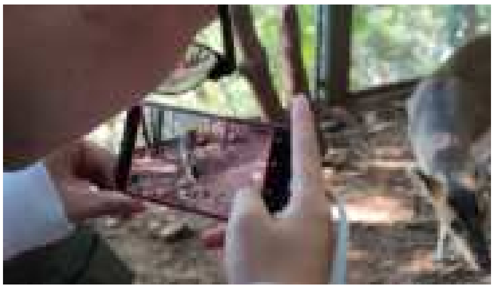
Wildlife Protection Promotion on Mi TV

To increase awareness for wildlife protection, Beijing Xiaomi Foundation cooperated with WildAid, an internationally renowned wildlife charity, to produce two advertisements for wildlife protection on Mi TV, beginning on March 2, 2020. They were played more than 600 million times. In addition, we jointly advocated "Sustaining All Life on Earth" on World Wildlife Day with the International Fund for Animal Welfare (IFAW).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUPER PEOPLE documentary

SUPER PEOPLE is a documentary project jointly initiated by Xiaomi, ZOO COFFEE and Guarding Wilderness. It is about people who work to protect animals and nature. Our Mi fans volunteered in filming and we promoted the documentary through our Weibo account. The five episodes in the first season told stories of animal caretakers at the Hongshan Zoo. The videos have been viewed more than 474,000 times on Weibo, Bilibili and Mi Community. The most popular video recorded 105,000 views.



Animal Protection Week Pictorial

In 2020, Xiaomi Pictorial promoted the topic of animal protection, by posting 7 articles about the protection of 6 different species. There were more than 940,000 visits to the content, with an 8.84% click-through rate.

"Most Beautiful Rangers" contest

Xiaomi provided 14 Redmi Note 9 5G smartphones as prizes for the "2020 Sichuan's Most Beautiful Rangers" contest. The event was organized by the Sichuan Forestry and Grassland Bureau, the Chengdu Giant Panda Breeding Research Foundation, and the SEE Conservation Sichuan Project Center. We launched a 15-second promotional video and displayed wallpaper on the startup ads on Xiaomi TV and other official channels, such as Xiaomi WeChat video account, Xiaomi TV Weibo account and Xiaomi social responsibility community accounts. The event was initiated to promote frontline animal protectors and their work. The campaign was viewed 14.8 million times.

Targeted Poverty Alleviation

In 2020, Xiaomi supported many poverty-stricken areas by offering cash donations and employment opportunities. In May 2020, Beijing Xiaomi Foundation donated RMB2 million to the Hubei Provincial Poverty Alleviation Fund, supporting porverty alleviation projects across 454 poverty-stricken villages in Hubei with average donation amount of RMB2,000 per person.

Datangzi District, Zhutang Township, Lancang County, Yunnan Province

At the beginning of 2020, Yunnan suffered its worst drought in the past 10 years. Beijing Xiaomi Foundation donated RMB250,000 to Datangzi District of Zhutang Town, Lancang County, a poverty-stricken area, for clean drinking water projects. This covered 18 village groups and 745 households totaling 2,491 people, of which 1,244 people were from registered poverty-stricken households. The project also provided drinking water to 980 livestock and solved crop irrigation difficulties in the Sanqi plantation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social Recognition

Award	Organization
CSR TOP 100	2020 CSR China Education Award Committee
Outstanding Enterprise for Technology Innovation	Corporate Social Responsibility recognition from Tencent News
Case Collection of Technology for Noble Callings	The China Computer Association

9. Fight against Covid-19

Life may be affected by the pandemic, but we shall not be defeated.
— Mr. Lei Jun, founder, chairman and CEO of Xiaomi

In 2020, the outbreak of the Covid-19 pandemic caused significant loss of life and property around the world. Facing this challenge, Xiaomi demonstrated strong organizational and coordination capabilities and made efforts to protect employees and their families and the general public.

During the pandemic, Xiaomi Corporation, along with our employees and the Beijing Xiaomi Foundation, made donations in cash and supplies valued at more than RMB80 million. As of July 15, 2020, the Beijing Xiaomi Foundation had received monetary donations totaling over RMB27 million, of which more than RMB12 million came from our executives and employees. The donations were used to purchase supplies needed to combat the pandemic and support the frontline medical staff.

In addition to donations, we took advantage of our strengths in technology, business operations and resource to support our supply chain partners and other stakeholders.

In 2020, Mr. Lei Jun was named as a "leading individual from the private enterprise fight against Covid-19" for his significant contribution in combating the pandemic, and won the 11th Annual "China Charity Award" from the Ministry of Civil Affairs of the People's Republic of China.

9.1 Employee Protection

The health and safety of our employees and their families have been our top priority during this challenging period. As a multinational corporation with more than 20,000 employees across more than 90 countries, Xiaomi stands with our employees in the face of adversity. In the early stages of the Covid-19 outbreak, we quickly set up an emergency response team and developed an emergency plan to protect our employees.

Xiaomi made prompt adjustments to its strategy and took measures to fight COVID-19 during these challenging times. At the beginning, we adopted a flexible work from home policy to reduce the risk of infection. When the pandemic was under control, we resumed work at our offices with strict precautionary measures such as entrance control, regular disinfection in office areas, social distancing policy, temperature checks, mask requirements, business travel restrictions, quarantine requirements, and so forth. As these measures became the new norm, we continued to monitor appropriate measures in accordance with the regulations.

To ensure a safe workplace, we took a series of measures to protect our employees. This included providing daily supplies, such as masks, hand sanitizers, disinfection sprays, and so forth. in our offices. We also underwent regular office area disinfection and provided separate garbage receptacles for used masks. In addition, air conditioners were disinfected regularly and the central air ventilation systems were kept on throughout the day to provide clean fresh air. At the canteen, we implemented strict social distancing rules. Additionally, we worked with commercial insurance providers on fast claims for pandemic-related issues.

To create a safe workplace for our employees at Mi Homes, we provided supplies, including 680,000 masks, 3,708 bottles of disinfectant, 8,043 bottles of antibacterial hand gel, 2,445 packs of disinfectant cotton, 2,059 boxes of disposable gloves, and 500 infrared thermometers.

We also paid attention to the mental health of our employees during the pandemic. We provided our employees and their families with mental counselling services through the EAP. In addition, we carried out various online and offline activities to help employees minimize their negative emotions caused by the pandemic.

- Xiaomi's Wuhan Office published 30 episodes of internal newsletters titled *Fighting Pandemic Daily*, providing useful, detailed and targeted guidance for work resumption. The daily report covers company updates, the latest pandemic prevention policies in Wuhan, the operation hours of neighboring amenities, and the transportation inside and outside the Hubei Province.

- Xiaomi's Wuhan office held three live broadcasts, covering information updates on the pandemic situation in Wuhan, pandemic prevention measures in the office, and local community recovery updates, and so forth.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

9.2 Joint Efforts

Domestic support

During the early stage of the Covid-19 outbreak, controlling the spread of the pandemic in Wuhan was a challenging and complex task, and the procurement and transport of supplies was most important in fighting the pandemic. Xiaomi acted fast to dispatch a team to collect first-hand data on supply needs and deliver protective supplies to Wuhan. During the lockdown, our Group headquarters and Wuhan regional headquarters coordinated closely to deliver supplies to Wuhan through our own logistics and warehouse network across six cities. On January 25, 2020, the first day of Chinese New Year, Xiaomi delivered the first batch of RMB300,000 in emergency medical supplies. In the meantime, we shared our logistics and warehouses with the Alumni Association of Wuhan University and other associations to help them ship and deliver supplies to Wuhan.

On February 2, 2020, together with Viomi and Seasun Games Corporation, Xiaomi donated RMB2.3 million worth of emergency supplies to Wuhan Leishenshan Hospital and Huoshenshan Hospital. The supplies included Xiaomi tablets, infrared thermometers, walkie-talkies, automatic hand washing machines and foam hand sanitizer.

Xiaomi also supported other cities in Hubei Province as the pandemic developed and spread. Beijing Xiaomi Foundation supported Xiantao First People's Hospital with N95 masks and protective clothing. Other cities, such as Xiangyang, Huanggang, Xiaogan, Guangshui, Xianning, Enshi, Chibi, Ezhou, Jingmen and Jingzhou, received medical supplies from Xiaomi and Beijing Xiaomi Foundation, including masks, protective clothing and medical equipment. We also provided timely support to other cities in China.

- Xiaomi donated RMB2 million in supplies and equipment, including thermometers, walkie talkies, smart speakers and Mi TVs, to Xiaotangshan Hospital, Peking Union Medical College Hospital and government departments.

- Beijing Xiaomi Foundation donated RMB2.972 million in medical supplies to Beijing Haidian District Health Commission, Peking University Third Hospital and Beijing Haidian Hospital. The supplies included respirators, positive pressure hoods, surgical masks, thermometers, disinfectant and 13,250 sets of medical protective clothing.

- In March 2020, Beijing Xiaomi Foundation donated positive pressure respiratory hoods worth nearly RMB1.3 million to eight hospitals in the Hubei Province.

- In April 2020, during the pandemic outbreak in Suifenhe City, Heilongjiang Province, Beijing Xiaomi Foundation donated 50,000 surgical masks and 1,000 pieces of medical protective clothing, with a total value of approximately RMB240,000.

- In November 2020, Beijing Xiaomi Foundation donated five sets of dual laser infrared thermometers, to Pishan Farm in Hotan Prefecture, Xinjiang Uygur Autonomous Region.

In addition to the group-level donations, various business units also made their contributions. For example, Mi Home leveraged its offline presence across the nation to support neighbors and local communities to combat the pandemic.

- In mid-May 2020, when the pandemic worsened in Jilin Province, Wuhan Mi Home donated 350 medical protective suits to Jilin Anorectal Hospital of Integrated Traditional Chinese and Western Medicine.

Youpin, leveraging its platform resources, made important contributions in the fight against the pandemic.

- Youpin responded quickly to source medical-related supplies from suppliers across the country. The supplies that were secured supported our timely donations, including walkie-talkies to the Third Hospital of Wuhan, suitcases and water-soluble tape to the Peking Union Medical College Hospital rescue team, and 20,000 surgical masks and 50,000 pairs of medical gloves to the Zhongnan Hospital of Wuhan University.

Overseas support

Xiaomi actively supported the fight against the pandemic overseas. Together with Beijing Xiaomi Foundation, we donated more than 3 million medical supplies including masks, protective clothing, thermometers and ventilators, to more than 40 countries and regions, including Italy, Spain, France, Belgium, Argentina, Russia, India, Indonesia, South Korea, Japan and Singapore. We also provided about 500,000 masks for overseas employees and their families, and our overseas partners.

- In April 2020, together with the Foresight Fund in Shanghai, Beijing Xiaomi Foundation, Xiaomi donated more than 100,000 surgical masks to the Tokyo City Hall in Japan.

- Xiaomi donated medical supplies to Italy, including tens of thousands of masks.

- In Spain, Xiaomi donated masks to police and medical staff. We also donated smartphones to the local education bureau to help students in need.

- In April 2020, Xiaomi announced a donation of 100 million rupees to support India.

9.3 Innovative Solutions

As a leading technology company, in addition to making donations, we also leveraged our innovative technologies, wide user reach, strong supply chain financing, and other resources to combat the pandemic.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Technology Support

Through our technology capability, Xiaomi maximized the effectiveness of donated materials and provided technical support to the frontline staff.

Support Xiaotangshan Hospital

Xiaomi donated RMB1.12 million of supplies to Xiaotangshan Hospital, including walkie-talkies, smart speakers and Mi TVs. Xiaomi also organized service teams to assist the hospital with installing and testing services. On March 16, 2020, Xiaotangshan Hospital officially began operations. The walkie-talkies became an important communication tool between staff in quarantine areas.

Upon the feedback of insufficient intercom channels due to the large demands of communication in the quarantine areas, Xiaomi quickly sent a R&D team to develop the software and expand the intercom system to 60 channels within 24 hours. Xiaomi completed the software upgrade and hardware deployment of 175 walkie-talkies in only two days, ensuring effective communication at Xiaotangshan Hospital.

Xiaomi's AI team improved the performance of infrared temperature detection devices for higher accuracy.

Smart infrared temperature detection system

During the Spring Festival, our Xiaomi AI R&D team cooperated with Wuhan Huazhong Numerical Control Co., Ltd. to develop an accurate and smart infrared temperature detection system. Based on an infrared body temperature detector and a high-definition visible light camera module, and deployed the face detection algorithm, the technology greatly improved the accuracy of infrared temperature measurement. In April 2020, the Wuhan Huazhong Numerical Control Co., Ltd. sent a thank-you letter to Xiaomi for its technological support.

Benefits to a wider community

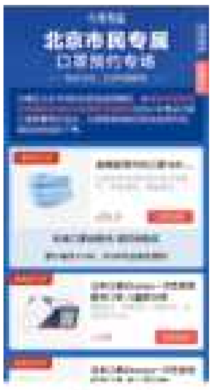
Our Phone Manager application enjoys a high user base. We developed and launched several features on the Phone Manager application to provide pandemic-related news in a timely manner. These features were available for three months and served 96 million users.

- On January 25, 2020, Phone Manager, in cooperation with Doctor Dingxiang, provided pandemic-related live news updates and other relevant information to users.

- After the government issued policy on the postponement of work resumption after the Spring Festival, Phone Manager cooperated with China Business News and launched the "Real-time Pandemic Map," assisting users with travel planning.

In July 2020, Beijing Xiaomi Foundation donated RMB8 million to Wuhan Charity Foundation. This donation supported university and college students from low-income households in Wuhan who were affected by the COVID-19. Each student received a subsidy of RMB5,000.

YOUPIN provided supplies at low price to help people in pandemic-stricken areas.



On January 26, 2020, Youpin App launched a channel for users in Hubei to procure supplies including masks and disinfectants at a price of RMB0.01. On February 1, 2020, Youpin App provided masks for residents in the Haidian District of Beijing with prior appointment. More than 100,000 medical masks were provided every day at a low price. This initiative reduced mask supply shortages and prevented the risk of infection due to gathering at stores.

TV played an important role during the quarantine period. Mi TV launched free channels of "Go! Wuhan" and "School at Home" for Wuhan users. These were the first free channels on internet TV during the pandemic.

The "Go! Wuhan" Channel provided more than 20,000 free programs across nine categories, including 505 movies and 100 TV series authorized by Xiaomi's strategic partners, as well as various shows, videos and music.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the school suspension period, Mi TV education channel provided more than 200 high-quality free courses covering eight categories and more than 1,000 online live courses with over 87,000 minutes of content to students of different ages and grades.

New Products and New Models

In response to the pandemic, Airstar Digital Technology (formerly Xiaomi Financial Insurance) expanded the coverage of its insurance product offering to include coverage of casualty and hospitalization due to the COVID-19. In addition, "Xiaomi Comprehensive Accident Insurance" was upgraded to include COVID-19 casualty insurance." These upgrades were well received among users and the market.

Airstar Digital Technology provided an emergency response plan under the "Mi Medical Insurance" program. Insured members diagnosed with Covid-19 were entitled to the following benefits:

- Insurance claims could be settled directly with no waiting period;
- The deductible payment was eliminated;
- No restrictions on designated hospitals. Insured persons can apply for compensation for treatment in any government-recognized hospital;
- The insurance company set up an emergency hotline for user consultation;
- A "green channel" was established for claim settlements with simplified procedures;
- A "green channel" was established for death claims. Treatment costs could be paid before the submission of supporting materials.

Xiaomi after-sales team explored new services to address situations when some users' products could not enjoy regular after-sales service within the warranty period due to COVID-19 precaution measures. In such situations, Xiaomi's after-sales team extended the product warranty expiration date for products to March 31, 2020, while keeping the scope of after-sales services unchanged.

- Door-to-door customer service: For lockdown areas with limited public transportation, after-sales contactless services were made available at entrances to neighborhood communities;
- On-site repair service: In the cases where our store access were restricted, our after-sales service specialists provided services on the street;
- Delivery repair service: For factories that were closed, Xiaomi's after-sales teams moved the repair site to dormitories, warehouses and logistics warehouses to provide service in a timely manner.

Empowering the Value Chain

As a core player in the value chain, we are committed to helping our partners overcome the difficulties presented by the pandemic. We have formulated and implemented a series of strategies to support their recovery.

Our Mi TV department has monitored the work resumption status of more than 100 content suppliers every day since February 2020, and assisted in resumption approval through communication with governmental bodies. Xiaomi Smart Hardware Department purchased medical supplies and sent them to its suppliers.

Financial assistance

- For small and micro enterprises with financial difficulties caused by the pandemic, Airstar provided financial assistance for their business operations. In addition, Xiaomi deducted the interest rate by 10% to the small- and micro enterprise in the Hubei Province.
- During the pandemic, Airstart initiated a special support plan for 35 selected small- and medium-sized medical equipment companies. We helped them maintain adequate funding through measures such as increasing credit lines, and accelerating approval procedures.

As Wuhan recovered from the pandemic, Xiaomi promoted and supported the sales of agricultural and food companies in Hubei. To support local enterprises, Youpin set up special "Go! Hubei" and "Hubei Products" channels to provide consumers with Hubei-made products. In addition, Youpin promoted Hubei agricultural products through live broadcasts online.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Appendix 1: ESG Guide Index

Subject Area	Aspect	General Disclosure and KPIs	Chapter	Page
Environmental	A1 Emissions	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 air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	1. Environmental Management	131–140
		A1.1 The types of emissions and respective emissions data.	1.1 Green Operations	131–134
		A1.2 Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1.1 Green Operations	131–134
		A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1.1 Green Operations	133
		A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	1.1 Green Operations	133
		A1.5 Description of measures to mitigate emissions and results achieved.	1. Environmental Management	131–140
		A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	1. Environmental Management	131–140
	A2 Use of Resources	General disclosure: Policies on the efficient use of resources, including energy, water and other raw materials.	1. Environmental Management	131–140
		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).	1.1 Green Operations	131–134

Subject Area	Aspect	General Disclosure and KPIs	Chapter	Page
		A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	1.1 Green Operations	131–134
		A2.3 Description of energy use efficiency initiatives and results achieved.	1. Environmental Management	131–140
		A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	1.1 Green Operations	131–134
		A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	1.2 Green Product and Packaging	135–140
	A3 The Environment and Natural Resources	General disclosure: Policies on minimizing the issuer's significant impacts on the environment and natural resources.	1. Environmental Management	131–140
		A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	1. Environmental Management	131–140
Social	B1 Employment	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 compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	4. People First	152–159
		B1.1 Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	4.1 Employee Rights	153
		B1.2 Employee turnover rate by gender, age group and geographical region.	—	—

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Area	Aspect	General Disclosure and KPIs	Chapter	Page
	B2 Health and Safety	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 providing a safe working environment and protecting employees from occupational hazards	4.2 Employee Protection 9.1 Employee Protection	155-157, 195
		B2.1 Number and rate of work-related fatalities.	—	—
		B2.2 Lost days due to work injury.	—	—
		B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.2 Employee Protection 9.1 Employee Protection	155-157, 195
	B3 Development and Training	General disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.3 Employee Development	157-159
		B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	—	—
		B3.2 The average training hours completed per employee by gender and employee category.	—	—
	B4 Labour Standards	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 preventing child and forced labour	4.1 Employee Rights	152
		B4.1 Description of measures to review employment practices to avoid child and forced labour	4.1 Employee Rights	152
		B4.2 Description of steps taken to eliminate such practices when discovered.	4.1 Employee Rights	152

Subject Area	Aspect	General Disclosure and KPIs	Chapter	Page
	B5 Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	7.1 Supply Chain Sustainability	177-179
		B5.1 Number of suppliers by geographical region.	—	—
		B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	7.1 Supply Chain Sustainability	177-179
	B6 Product Responsibility	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	2. Quality as Always 5. Customer First 6. Business Ethics	140–145, 160–168, 168–176
		B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	—	—
		B6.2 Number of products and service related complaints received and how they are dealt with.	5. Customer First	160–164
		B6.3 Description of practices relating to observing and protecting intellectual property rights.	6.3 Intellectual Property Protection	173-174
		B6.4 Description of quality assurance process and recall procedures.	—	—
		B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	6.1 Privacy Protection and Information Security	168-172

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Area	Aspect	General Disclosure and KPIs	Chapter	Page
	B7 Anti-corruption	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 bribery, extortion, fraud and money laundering.	6. Business Ethics	168-176
		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.	—	—
		B7.2 Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	6.4 Anti-Corruption and Anti-Bribery 6.5 Anti-money Laundering	174-176
	B8 Community Investment	General Disclosure: 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.	8. Exploration of Social Responsibility 9.2 Joint Efforts 9.3 Innovative Solutions	186-194, 196-201
		B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	8. Exploration of Social Responsibility 9.2 Joint Efforts 9.3 Innovative Solutions	186-194, 196-201
		B8.2 Resources contributed (e.g. money or time) to the focus area.	8. Exploration of Social Responsibility 9.2 Joint Efforts 9.3 Innovative Solutions	186-194, 196-201

Appendix 2: GRI Index

Chapter		Disclosure
I. About the Report	1. Organizational Profile	102-1 Name of the organization
	6. Reporting practice	102-45 Entities included in the consolidated financial statements
	6. Reporting practice	102-46 Defining report content and topic boundaries
	6. Reporting practice	102-50 Reporting period
	6. Reporting practice	102-52 Reporting cycle
III. ESG Governance and Strategy	2. Strategy	102-14 Statement from senior decision-maker
	2. Strategy	102-15 Key impacts, risks and opportunities
	4. Governance	102-22 Composition of the highest governance body and its committees
	4. Governance	102-29 Identifying and managing economic, environmental, and social impacts
	4. Governance	102-31 Review of economic, environmental, and social topics
	4. Governance	102-32 Highest governance body's role in sustainability reporting
	4. Governance	102-33 Communicating critical concerns
IV. Stakeholder Engagement	4. Governance	102-21 Consulting stakeholders on economic, environmental, and social topics
	5. Stakeholder engagement	102-40 List of stakeholder groups
	5. Stakeholder engagement	102-42 Identifying and selecting stakeholders
	5. Stakeholder engagement	102-43 Approach to stakeholder engagement
	5. Stakeholder engagement	102-44 Key topics and concerns raised

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Chapter			Disclosure
V. Materiality Assessment	6. Reporting practice		102-47 List of material topics
1.Environmental Management	GRI 301: Materials	GRI 103 Management approach	Management approach of materials
		Topic-specific disclosures	301-1 Materials used by weight or volume 301-2 Recycled input materials used 301-3 Reclaimed products and their packaging materials
	GRI 302: Energy	GRI 103 Management approach	Management approach of energy
		Topic-specific disclosures	302-1 Energy consumption within the organization 302-2 Energy consumption outside the organization 302-3 Energy intensity 302-4 Reduction of energy consumption 302-5 Reduction in energy requirements of products and services
	GRI 303: Water	Management approach	303-1 Interactions with water as a shared resource
		Topic-specific disclosures	303-3 Water withdraw
	GRI 305: Emissions	GRI 103 Management approach	Management approach of emissions
		Topic-specific disclosures	305-1 Direct (Scope 1) GHG emissions 305-2 Energy indirect (Scope 2) GHG emissions 305-3 Other indirect (Scope 3) GHG emissions 305-4 GHG emissions intensity 305-5 Reduction of GHG emissions

Chapter			Disclosure
	GRI 306: Waste	Management approach	306-1 Waste generation and significant waste-related impacts
		Topic-specific disclosures	306-2 Management of significant waste-related impacts
			306-3 Waste generated
	GRI 307: Environmental compliance	GRI 103: Management approach	Management approach of environmental compliance
2.Quality as Always	GRI 201: Economic performance	GRI 103: Management approach	Management approach of economic performance
	GRI 416: Customer health and safety	GRI 103: Management approach	Management of customer health and safety
		Topic-specific disclosures	416-1 Assessment of the health and safety impacts of product and service categories
3.Technology Innovation	1. Organizational Profile		102-2 Activities, brands, products and services
	GRI 201: Economic performance	GRI 103: Management approach	Management approach of economic performance
4.People First	1. Organizational Profile		102-7 Scale of the organization
			102-8 Information on employees and other workers
	4. Governance		102-35 Remuneration policies
	GRI 201: Economic performance	Topic-specific disclosures	201-3 Defined benefit plan obligations and other retirement plan
	GRI 401: Employment	GRI 103: Management approach	Management approach of employment
		Topic-specific disclosures	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees
			401-3 Parental leave

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Chapter			Disclosure
	GRI 402: Labor/management relations	GRI 103: Management approach	Management approach of labor/management relations
	GRI 403: Occupational health and safety	Management approach disclosures	403-1 Occupational health and safety management system
			403-2 Hazard identification, risk assessment, and incident investigation
			403-3 Occupational health services
			403-4 Worker participation, consultation, and communication on occupational health and safety
			403-5 Worker training on occupational health and safety
			403-6 Promotion on worker health
		Topic-specific disclosures	403-8 Worker covered by an occupational health and safety management system
	GRI 404: Training and education	GRI 103: Management approach	Management approach of training and education
		Topic-specific disclosures	404-2 Programs for upgrading employee skills and transition assistance programs
	GRI 405: Diversity and equal opportunity	GRI 103: Management approach	Management approach disclosures
		Topic-specific disclosures	405-1 Diversity of governance bodies and employees
	GRI 406: Non-discrimination	GRI 103: Management approach	Management approach of non-discrimination
	GRI 408: Child labor	GRI 103: Management approach	Management approach of child labor
	GRI 409: Forced or compulsory labor	GRI 103: Management approach	Management approach of compulsory labor

Chapter			Disclosure
5.Customer First	GRI 416: Customer health and safety	GRI 103: Management approach	Management approach of customer health and safety
6.Business Ethics	3. Ethics and integrity		102-16 Values, principles, standards, and norms of behavior
			102-17 Mechanisms for advice and concerns about ethics
	GRI 205: Anti-corruption	GRI 103: Management approach	Management approach of anti-corruption
		Topic-specific disclosures	205-1 Operations assessed for risks related to corruption
			205-2 Communication and training about anti-corruption policies and procedures
			205-3 Confirmed incidents of corruption and actions taken
	GRI 417: Marketing and labeling	GRI 103: Management approach	Management approach of marketing and labeling
	GRI 418: Customer privacy	GRI 103: Management approach	Management approach of customer privacy
7.Value Extention	1. Organizational Profile		102-9 Supply chain
			102-13 Membership of associations
	GRI 201: Economic performance	GRI 103: Management approach	Management approach of economic performance
	GRI 204: Procurement practices	GRI 103: Management approach	Management approach of procurement practices
	GRI 308: Supplier environmental assessment	GRI 103: Management approach	Management approach of supplier environmental assessment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Chapter			Disclosure
		Topic-specific disclosures	308-1 New suppliers that were screened using environmental criteria
			308-2 Negative environmental impacts in the supply chain and actions taken
	GRI 414: Supplier social assessment	GRI 103: Management approach	Management approach of supplier social assessment
		Topic-specific disclosures	414-2 Negative social impacts in the supplier chain and actions taken
8.Exploration of Social Responsibility	GRI 201: Economic performance	GRI 103: Management approach	Management approach of economic performance
	GRI 203: Indirect economic impacts	Topic-specific disclosures	203-1 Infrastructure investments and services supported
	GRI 413: Local communities	GRI 103: Management approach	Management approach of local communities
		Topic-specific disclosures	413-1 Operations with local community engagement, impact assessment, and development programs
9. Fight against Covid-19	GRI 201: Economic performance	GRI 103: Management approach	Management approach of economic performance
	GRI 403: Occupational health and safety	Management approach disclosures	403-6 Promotion of worker health
	GRI 413: Local communities	GRI 103: Management approach	Management approach of local communities
		Topic-specific disclosures	413-1 Operations with local community engagement, impact assessment, and development programs
Appendix: GRI Content Index	6. Reporting practice		102-55 GRI content index

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**") set out on pages 219 to 361, which comprise:

- the consolidated balance sheet as of December 31, 2020;
- 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 a summary of significant accounting policies.

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, 2020, 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.

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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 matter identified in our audit is related to the classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss".

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 19 to the consolidated financial statements. During the year ended December 31, 2020, the Group recognized fair value changes on the following investments in 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**"), amounting to RMB3,349,669,000 and RMB21,245,862,000, respectively. The total amount of Unlisted Securities as of December 31, 2020 was RMB24,595,531,000, accounting for 10% 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 specialists to perform the following procedures: (1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group; (2) We interviewed management and understood the underlying assumptions and inputs used in fair value determination of Unlisted Securities; (3) We assessed the reasonableness of assumptions 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

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.

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.

INDEPENDENT AUDITOR'S REPORT

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.

- 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.

INDEPENDENT AUDITOR'S REPORT

- 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, 2021

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2020

(Expressed in Renminbi ("RMB"))

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Revenue	6	**245,865,633**	205,838,682
Cost of sales	8	**(209,113,771)**	(177,284,649)
Gross profit		**36,751,862**	28,554,033
Selling and marketing expenses	8	**(14,539,400)**	(10,378,073)
Administrative expenses	8	**(3,746,449)**	(3,103,901)
Research and development expenses	8	**(9,256,139)**	(7,492,554)
Fair value changes on investments measured at fair value through profit or loss	19(v)	**13,173,479**	3,813,012
Share of gains/(losses) of investments accounted for using the equity method	11(b)	**1,380,904**	(671,822)
Other income	7	**642,930**	1,265,921
Other losses, net		**(372,458)**	(226,399)
Operating profit		**24,034,729**	11,760,217
Finance income	10	**963,555**	930,889
Finance costs	10	**(3,364,852)**	(528,460)
Profit before income tax		**21,633,432**	12,162,646
Income tax expenses	12	**(1,320,722)**	(2,059,696)
Profit for the year		**20,312,710**	10,102,950
Attributable to:			
— Owners of the Company		**20,355,504**	10,044,164
— Non-controlling interests		**(42,794)**	58,786
		20,312,710	10,102,950
Earnings per share (expressed in RMB per share):	13		
Basic		**0.849**	0.423
Diluted		**0.825**	0.410

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

(Expressed in RMB)

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Profit for the year		**20,312,710**	10,102,950
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive (loss)/income of investments accounted for using the equity method	11(b)	**(14,250)**	9,279
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		**(4,773)**	—
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		**(3,385)**	—
Currency translation differences		**(307,757)**	(77,430)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**(2,032,656)**	508,584
Other comprehensive (loss)/income for the year, net of tax		**(2,362,821)**	440,433
Total comprehensive income for the year		**17,949,889**	10,543,383
Attributable to:			
— Owners of the Company		**17,986,452**	10,472,914
— Non-controlling interests		**(36,563)**	70,469
		17,949,889	10,543,383

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2020

(Expressed in RMB)

	Note	As of December 31, 2020 RMB'000	2019 RMB'000
Assets			
Non-current assets			
Property and equipment	14	6,305,657	6,992,331
Intangible assets	15	4,265,619	1,672,002
Investments accounted for using the equity method	11(b)	12,781,995	9,300,507
Long-term investments measured at fair value through profit or loss	19	35,215,319	20,679,363
Deferred income tax assets	34	2,011,072	1,283,415
Long-term bank deposits	24(c)	9,608,677	590,157
Long-term investments measured at amortized cost	19	232,798	—
Other non-current assets	17	6,975,851	5,572,346
		77,396,988	46,090,121
Current assets			
Inventories	23	41,670,719	32,585,438
Trade receivables	21	10,161,019	6,948,567
Loan receivables	20	8,919,088	12,723,503
Prepayments and other receivables	22	16,181,520	19,837,018
Bills receivables measured at fair value through other comprehensive income		200,000	—
Short-term investments measured at fair value through other comprehensive income	19	797,456	—
Short-term investments measured at fair value through profit or loss	19	22,376,387	16,463,390
Short-term bank deposits	24(c)	17,598,946	21,523,043
Restricted cash	24(b)	3,625,257	1,538,266
Cash and cash equivalents	24(a)	54,752,443	25,919,861
		176,282,835	137,539,086
Total assets		253,679,823	183,629,207
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	25	409	388
Reserves		123,691,287	81,330,186
		123,691,696	81,330,574
Non-controlling interests		321,819	327,102
Total equity		124,013,515	81,657,676

CONSOLIDATED BALANCE SHEET

As of December 31, 2020

(Expressed in RMB)

	Note	As of December 31, 2020 RMB'000	2019 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	33	10,634,806	4,786,856
Deferred income tax liabilities	34	300,556	579,902
Warranty provision		802,590	667,857
Other non-current liabilities	29	10,001,428	3,756,211
		21,739,380	9,790,826
Current liabilities			
Trade payables	30	72,198,856	59,527,940
Other payables and accruals	31	13,619,655	9,101,343
Advance from customers	32	11,999,086	8,237,119
Borrowings	33	6,961,937	12,836,555
Income tax liabilities		674,298	479,350
Warranty provision		2,473,096	1,998,398
		107,926,928	92,180,705
Total liabilities		129,666,308	101,971,531
Total equity and liabilities		253,679,823	183,629,207

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 219 to 361 were approved by the Board of Directors on March 24, 2021 and were signed on its behalf:

Lei Jun

Lin Bin

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

(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 26) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2020		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676
Comprehensive income									
Profit for the year		–	–	–	–	20,355,504	20,355,504	(42,794)	20,312,710
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	11(b)	–	–	–	(14,250)	–	(14,250)	–	(14,250)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		–	–	–	(4,773)	–	(4,773)	–	(4,773)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(3,385)	–	(3,385)	–	(3,385)
Currency translation differences	26	–	–	–	(313,988)	–	(313,988)	6,231	(307,757)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	26	–	–	–	(2,032,656)	–	(2,032,656)	–	(2,032,656)
Total comprehensive income		–	–	–	(2,369,052)	20,355,504	17,986,452	(36,563)	17,949,889
Transactions with owners in their capacity as owners									
Purchase of own shares	25	–	(454,872)	–	–	–	(454,872)	–	(454,872)
Cancellation of shares	25	–	1,345,663	(1,349,709)	–	–	(4,046)	–	(4,046)
Release of ordinary shares from Share Scheme Trusts	25	–	125,807	687,235	(783,805)	–	29,237	–	29,237
Share of other reserves of investments accounted for using the equity method	11(b)	–	–	–	207,140	–	207,140	–	207,140
Employees share-based compensation scheme:									
– value of employee services	28	–	–	–	1,978,166	–	1,978,166	280	1,978,446
– exercise of share options and restricted stock units	28	4	–	1,511,225	(1,179,339)	–	331,890	–	331,890
Capital injection from non-controlling interests		–	–	–	–	–	–	31,000	31,000
Share consideration for acquisition of an associate		1	–	320,384	320,384	–	640,769	–	640,769
Issuance of convertible bonds (equity component)	33(e)	–	–	–	1,764,799	–	1,764,799	–	1,764,799
Issuance of shares upon placement	25	16	–	19,907,920	–	–	19,907,936	–	19,907,936
Appropriation to statutory reserves	26	–	–	–	182,626	(182,626)	–	–	–
Appropriation to general reserves	26	–	–	–	32,945	(32,945)	–	–	–
Others		–	–	–	(26,349)	–	(26,349)	–	(26,349)
Total transactions with owners in their capacity as owners		21	1,016,598	21,077,055	2,496,567	(215,571)	24,374,670	31,280	24,405,950
Balance at December 31, 2020		409	(36,224)	64,655,891	8,158,661	50,912,959	123,691,696	321,819	124,013,515

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

(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 26) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2019		377	–	43,851,282	6,447,415	21,023,911	71,322,985	(72,856)	71,250,129
Comprehensive income									
Profit for the year		–	–	–	–	10,044,164	10,044,164	58,786	10,102,950
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	11(b)	–	–	–	9,279	–	9,279	–	9,279
Currency translation differences	26	–	–	–	(89,113)	–	(89,113)	11,683	(77,430)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	26	–	–	–	508,584	–	508,584	–	508,584
Total comprehensive income		–	–	–	428,750	10,044,164	10,472,914	70,469	10,543,383
Transactions with owners in their capacity as owners									
Purchase of own shares	25	–	(2,932,111)	–	–	–	(2,932,111)	–	(2,932,111)
Cancellation of shares	25	1	1,879,289	(1,882,527)	–	–	(3,237)	–	(3,237)
Release of ordinary shares from Share Scheme Trusts	25	1	–	167,447	(139,015)	–	28,433	–	28,433
Share of other reserves of investments accounted for using the equity method	11(b)	–	–	–	229,740	–	229,740	–	229,740
Employees share-based compensation scheme:									
– value of employee services	28	–	–	–	2,127,878	–	2,127,878	89	2,127,967
– exercise of share options and restricted stock units	28	9	–	1,442,634	(1,184,767)	–	257,876	–	257,876
Capital injection from non-controlling interests		–	–	–	–	–	–	155,496	155,496
Acquisition of additional equity interests in non-wholly owned subsidiaries		–	–	–	(173,904)	–	(173,904)	173,904	–
Appropriation to statutory reserves	26	–	–	–	295,047	(295,047)	–	–	–
Appropriation to general reserves	26	–	–	–	2	(2)	–	–	–
Total transactions with owners in their capacity as owners		11	(1,052,822)	(272,446)	1,154,981	(295,049)	(465,325)	329,489	(135,836)
Balance at December 31, 2019		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

(Expressed in RMB)

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	35(a)	**23,831,802**	25,952,239
Income tax paid		**(1,953,302)**	(2,141,885)
Net cash generated from operating activities		**21,878,500**	23,810,354
Cash flows from investing activities			
Capital expenditures		**(3,025,523)**	(3,405,163)
Proceeds from disposal of property and equipment	35(b)	**63,088**	67,735
Placement of short-term bank deposits		**(37,650,395)**	(25,728,849)
Withdrawal of short-term bank deposits		**41,212,622**	5,525,882
Placement of long-term bank deposits		**(9,018,520)**	(590,157)
Purchase of short-term investments measured at fair value through profit or loss		**(195,282,061)**	(134,409,027)
Proceeds from maturity of short-term investments measured at fair value through profit or loss		**189,410,595**	124,632,553
Purchase of short-term investments measured at fair value through other comprehensive income		**(1,544,640)**	—
Proceeds from maturity of investments measured at fair value through other comprehensive income		**742,090**	—
Purchase of investments measured at amortized cost		**(570,394)**	—
Proceeds from maturity of investments measured at amortized cost		**341,527**	—
Interest income received		**1,052,389**	864,226
Investment income received		**637,901**	386,461
Purchase of long-term investments measured at fair value through profit or loss		**(7,534,492)**	(3,987,225)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		**4,632,047**	4,846,175
Purchase of investments accounted for using the equity method		**(1,309,560)**	(200,000)
Proceeds from disposal of investments accounted for using the equity method		**6,345**	80,048
Acquisition of a subsidiary, net of cash acquired		**38,517**	—
Dividends received		**119,612**	347,205
Net cash used in investing activities		**(17,678,852)**	(31,570,136)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

(Expressed in RMB)

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		30,582,175	17,036,724
Repayment of borrowings		(32,586,382)	(10,417,425)
Finance expenses paid		(499,711)	(218,994)
Placement of restricted cash		(531,369)	—
Withdrawal of restricted cash		807,192	75,773
Contribution from fund investors		3,398,000	—
Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary		—	(187,000)
Net proceeds from exercise of share options		254,476	186,838
Payments for shares repurchase		(454,872)	(2,932,111)
Payment of lease liabilities		(493,899)	(578,063)
Capital contribution from non-controlling interests		31,000	155,496
Issuance of convertible bonds, net of issuance costs		5,801,022	—
Issuance of shares upon placement		19,907,936	—
Net cash generated from financing activities		26,215,568	3,121,238
Net increase/(decrease) in cash and cash equivalents		30,415,216	(4,638,544)
Cash and cash equivalents at the beginning of the year	24(a)	25,919,861	30,230,147
Effects of exchange rate changes on cash and cash equivalents		(1,582,634)	328,258
Cash and cash equivalents at the end of the year	24(a)	54,752,443	25,919,861

The notes on pages 227 to 361 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 subsidiaries 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 the 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 11(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.

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, 2020 and are applicable for the Group:

- Amendment to IFRS 3 on Definition of a Business
- Amendments to IAS 1 and IAS 8 on Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7 on Interest Rate Benchmark Reform and its Effects on Financial Reporting — Phase 1
- Revised Conceptual Framework for Financial Reporting

The adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2020 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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 years
— Office equipment	3–5 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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 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 16 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). 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 18 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.3 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 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.

Other financial liabilities

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.

2.11 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 Summary of significant accounting policies (continued)

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.

2.13 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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. The Group has chosen not to revalue its right-of-use assets.

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 (Note 17). 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. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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, 2020 would have been approximately RMB233,314,000 higher/lower (2019: RMB28,060,000 lower/higher), as a result of net foreign exchange gains (2019: net foreign exchange losses) on translation of net monetary liabilities (2019: net monetary assets) 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, 2020 would have been approximately RMB11,743,000 (2019: RMB326,278,000) lower/higher, as a result of net foreign exchange losses on translation of net monetary liabilities denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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 33), short-term investments measured at fair value through other comprehensive income, long-term investments measured at amortized cost, loan receivables, long-term bank deposits, 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, 2020 would have been approximately RMB12,412,000 (2019: RMB29,537,000) 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, 2020 would have been RMB273,762,000 (2019: RMB129,599,000) 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 cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments measured at fair value through profit and loss, short-term investments measured at fair value through other comprehensive income, long-term investments measured at amortized cost, loan receivables, trade receivables, other receivables, bills receivables measured at fair value through other comprehensive income 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 and 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 and long-term investments measured at amortized costs, 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 RMB1,605,679,000 as of December 31, 2020 (2019: RMB8,142,058,000), 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.

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):

(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, 2020	198,089	400,085	1,071,563	1,669,737
Transfers:				
Transfer from Stage 1 to Stage 2	(435)	21,467	—	21,032
Transfer from Stage 1 to Stage 3	(55,454)	—	483,776	428,322
Transfer from Stage 2 to Stage 3	—	(270,561)	336,764	66,203
Change in PDs/LGDs/EADs	366	1	1,334	1,701
Loan receivables derecognized during the year	(141,868)	(137,378)	(34,261)	(313,507)
New loan receivables originated	296,521	288,726	1,351,141	1,936,388
Write-offs	—	—	(1,000,792)	(1,000,792)
Loss allowance as of December 31, 2020	297,219	302,340	2,209,525	2,809,084

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)

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2019	101,621	89,271	510,973	701,865
Transfers:				
Transfer from Stage 1 to Stage 2	(208)	13,785	—	13,577
Transfer from Stage 1 to Stage 3	(2,114)	—	175,902	173,788
Transfer from Stage 2 to Stage 3	—	(68,890)	146,511	77,621
Change in PDs/LGDs/EADs	17	11	35,593	35,621
Loan receivables derecognized during the year	(98,076)	(21,373)	(183,746)	(303,195)
New loan receivables originated	196,849	387,281	642,015	1,226,145
Write-offs	—	—	(255,685)	(255,685)
Loss allowance as of December 31, 2019	198,089	400,085	1,071,563	1,669,737

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, 2020, due to the optimized risk strategy of the Group, decreased by 22% (2019: increased by 29%). With the increase of the gross carrying amount in Stage 3, loss allowance measured on lifetime basis increased by RMB1,137,962,000 for the year ended December 31, 2020 (2019: RMB560,590,000).

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, 2020	12,733,684	532,975	1,126,581	14,393,240
Transfers:				
Transfer from Stage 1 to Stage 2	(26,210)	26,210	—	—
Transfer from Stage 1 to Stage 3	(516,986)	—	516,986	—
Transfer from Stage 2 to Stage 3	—	(359,596)	359,596	—
Loan receivables derecognized during the year other than write-offs	(12,193,029)	(179,471)	(38,288)	(12,410,788)
New loan receivables originated	9,003,026	358,945	1,433,549	10,795,520
Write-offs	—	—	(1,049,800)	(1,049,800)
Gross carrying amount as of December 31, 2020	9,000,485	379,063	2,348,624	11,728,172
Gross carrying amount as of January 1, 2019	10,227,478	207,640	560,392	10,995,510
Transfers:				
Transfer from Stage 1 to Stage 2	(18,538)	18,538	—	—
Transfer from Stage 1 to Stage 3	(188,121)	—	188,121	—
Transfer from Stage 2 to Stage 3	—	(154,171)	154,171	—
Loan receivables derecognized during the year other than write-offs	(10,000,977)	(53,444)	(199,724)	(10,254,145)
New loan receivables originated	12,713,842	514,412	679,306	13,907,560
Write-offs	—	—	(255,685)	(255,685)
Gross carrying amount as of December 31, 2019	12,733,684	532,975	1,126,581	14,393,240

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, 2020 was RMB1,049,800,000 (2019: RMB255,685,000). 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, 2020, there is no non-compliance with such loan covenants (2019: 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, 2020					
Borrowings	7,488,113	1,226,928	2,391,847	10,635,713	21,742,601
Trade payables	72,198,856	—	—	—	72,198,856
Other payables	9,731,586	—	—	—	9,731,586
Lease liabilities	418,984	254,025	255,581	67,290	995,880
Liabilities to fund investors	—	—	—	9,364,533	9,364,533
Off-balance sheet guarantee liabilities	1,468,521	—	—	—	1,468,521
At December 31, 2019					
Borrowings	13,410,690	3,342,065	1,430,363	928,448	19,111,566
Trade payables	59,527,940	—	—	—	59,527,940
Other payables	5,601,788	—	—	—	5,601,788
Lease liabilities	414,687	204,959	275,879	108,590	1,004,115
Liabilities to fund investors	—	—	—	3,074,210	3,074,210
Off-balance sheet guarantee liabilities	7,893,941	—	—	—	7,893,941

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 operating profits and 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 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, 2020:

	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 19)	6,377,087	—	28,838,232	35,215,319
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	22,376,387	22,376,387
Short-term investments measured at fair value through other comprehensive income (Note 19)	797,456	—	—	797,456
Bills receivables measured at fair value through other comprehensive income	—	—	200,000	200,000
	7,174,543	—	51,414,619	58,589,162

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, 2019:

	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 19)	3,651,090	—	17,028,273	20,679,363
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	16,463,390	16,463,390
	3,651,090	—	33,491,663	37,142,753

(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.

(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, 2020 and 2019:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	**17,028,273**	13,420,310
Additions	**6,257,421**	3,486,670
Disposals	**(355,967)**	(396,683)
Changes in fair value	**7,655,853**	2,287,879
Transfer to long-term investments accounted for using the equity method	**(94,327)**	(958,701)
Transfer to level 1 financial instruments	**(710,852)**	(967,179)
Exchange (losses)/gains	**(942,169)**	155,977
At the end of the year	**28,838,232**	17,028,273
Net unrealized gains for the year	**7,491,689**	1,772,043

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, 2020 and 2019:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	16,463,390	6,648,526
Additions	195,282,061	134,409,027
Disposals	(190,048,496)	(125,019,014)
Changes in fair value	679,432	424,851
At the end of the year	22,376,387	16,463,390
Net unrealized gains for the year	79,921	38,390

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 19), and short-term investments measured at fair value through profit or loss (Note 19). 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,		
	2020	2019		**2020**	2019	
	RMB'000	RMB'000				
Long-term investments measured at fair value through profit or loss	**28,838,232**	17,028,273	Expected volatility	**28%–71%**	26%–59%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	**10%–25%**	5%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	**0.1%–5%**	2%–3%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	**22,376,387**	16,463,390	Expected rate of return	**1%–7%**	2%–5%	The higher the expected rate of return, the higher the fair value

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 10% higher/lower, the profit before income tax for the year ended December 31, 2020 would have been approximately RMB5,759,171,000 (2019: RMB3,714,275,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2020, 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, 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 measure, 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 assets and liabilities 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 recoverable amount of non-financial assets and investments accounted for using the equity method is the greater of its fair value less costs of disposal and value-in-use. 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.

The Group uses all readily available information in determining an amount that is a reasonable estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue, operating costs and the selection of appropriate discount rates. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods.

(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 cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

(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 gains/(losses) of investments accounted for using the equity method, other income, other losses, net, finance income, finance costs and income tax expenses are also not allocated to individual operating segments.

The 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 hardware repair services for products and sale of materials.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

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) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair 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, 2020 and 2019. 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, 2020 and 2019 are as follows:

	Year ended December 31, 2020				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	**152,190,891**	**67,410,453**	**23,755,285**	**2,509,004**	**245,865,633**
Cost of sales	**(138,986,944)**	**(58,804,839)**	**(9,111,002)**	**(2,210,986)**	**(209,113,771)**
Gross profit	**13,203,947**	**8,605,614**	**14,644,283**	**298,018**	**36,751,862**

	Year ended December 31, 2019				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	122,094,897	62,087,998	19,841,569	1,814,218	205,838,682
Cost of sales	(113,335,546)	(55,134,299)	(6,998,096)	(1,816,708)	(177,284,649)
Gross profit/(loss)	8,759,351	6,953,699	12,843,473	(2,490)	28,554,033

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, 2020 and 2019, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2020		2019	
	RMB'000	%	RMB'000	%
Mainland China	123,484,251	50.2	114,608,633	55.7
Rest of the world (Note(a))	122,381,382	49.8	91,230,049	44.3
	245,865,633		205,838,682	

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, 2020 and 2019 are listed as below:

	Year ended December 31,	
	2020	2019
	%	%
Customer A	10.5	12.1

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, 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

6 Revenue

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Smartphones	**152,190,891**	122,094,897
IoT and lifestyle products	**67,410,453**	62,087,998
Internet services	**23,755,285**	19,841,569
Others	**2,509,004**	1,814,218
	245,865,633	205,838,682

7 Other income

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Government grants	**304,024**	400,405
Value-added tax and other tax refunds	**115,443**	55,282
Dividend income	**81,407**	347,205
Others	**142,056**	463,029
	642,930	1,265,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

8 Expenses by nature

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Cost of inventories sold	185,753,174	157,935,754
Provision for impairment of inventories (Note 23)	3,688,809	3,859,675
Royalty fees	6,687,263	5,042,116
Employee benefit expenses (Note 9)	9,914,453	8,304,928
Depreciation of property and equipment, right-of-use assets and investment properties (Note 14, 16, 17)	1,042,895	895,273
Amortization of intangible assets (Note 15)	665,566	485,786
Promotion and advertising expenses	5,477,287	3,355,201
Content fees to game developers and video providers	2,418,008	1,754,622
Credit loss allowance for loan receivables	1,757,680	1,015,619
Consultancy and professional service fees	980,462	730,312
Cloud service, bandwidth and server custody fees	1,980,323	1,724,145
Warranty expenses	2,823,897	2,641,794
Auditor's remuneration	88,340	79,126

During the year ended December 31, 2020, the Group incurred expenses for the purpose of research and development of approximately RMB9,256,139,000 (2019: RMB7,492,554,000), which comprised employee benefits expenses of RMB5,341,494,000 (2019: RMB4,526,246,000). No significant development expenses had been capitalized during the year (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	6,170,601	4,699,234
Share-based compensation expenses (Note (a) and Note 28)	2,328,319	2,201,722
Contributions to pension plans	423,044	551,073
Other social security costs, housing benefits and other employee benefits	992,489	852,899
	9,914,453	8,304,928

Note:

(a) 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) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director (Chew Shou Zi) during the years ended December 31, 2020 and 2019. All of these individuals including that one director 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, 2020 and 2019. The emoluments payable to the five highest paid individuals during the years ended December 31, 2020 and 2019 are as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	10,768	6,762
Share-based compensation expenses	267,190	262,073
Contributions to pension plans	60	154
Other social security costs, housing benefits and other employee benefits	168	229
	278,186	269,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2020	2019
Hong Kong dollar ("**HK$**") 31,500,001 to HK$32,000,000	**1**	—
HK$35,000,001 to HK$35,500,000	**1**	—
HK$57,500,001 to HK$58,000,000	**—**	1
HK$59,500,001 to HK$60,000,000	**1**	2
HK$60,000,001 to HK$60,500,000	**—**	1
HK$68,000,001 to HK$68,500,000	**—**	1
HK$86,500,001 to HK$87,000,000	**1**	—
HK$99,000,001 to HK$99,500,000	**1**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(b) Benefits and interests of directors

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
LEI, Jun	—	—	—	—	—	—
LIN, Bin	—	—	—	—	—	—
CHEW, Shou Zi	—	—	—	—	—	—
Non-executive Directors						
LIU, Qin	—	—	—	—	—	—
Independent non-executive Directors						
CHEN, Dongsheng	500	—	—	—	—	500
WONG, Shun Tak (i)	1,000	—	—	—	—	1,000
TONG Wai Cheung Timothy (ii)	1,000	—	—	—	—	1,000

Notes:

(i) HK$500,000 was paid to Mr. Wong Shun Tak during the year ended December 31, 2020 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 year ended December 31, 2020 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

During the year ended December 31, 2020, 100,000,000 share options were granted to Chew Shou Zi (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(c) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2020 and 2019 or at any time during all the years presented.

(d) 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, 2020 and 2019 or at any time during all the years presented.

(e) 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, 2020 and 2019 or at any time during all the years presented.

(f) 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, 2020 and 2019 or at any time during all the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Finance income and costs

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	963,555	930,889

Interest income mainly represents interest income from bank deposits, including bank balances and term deposits.

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Finance costs:		
Interest expense from liabilities to fund investors (Note 29)	2,892,323	250,706
Interest expense from borrowings (Note 33) and lease liabilities (Note 16)	497,006	407,141
Less: amount capitalized	(24,477)	(129,387)
	3,364,852	528,460

Finance costs have been capitalized on qualifying assets at average interest rates of 4.94% per annum for the year ended December 31, 2020 (2019: 5.78%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities

As of December 31, 2020 and 2019, 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, 2020	2019	As of the date of this report	
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 Finance Inc.	Cayman Islands, limited liability company	February 15, 2018	US$1	100%	100%	100%	Investment holding and investment activities
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, 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	
				2020	2019		
Subsidiaries							
Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$130,000,000	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
Taiwan Xiaomi Communications Co., Ltd.	Taiwan, limited liability company	April 25, 2000	New Taiwan Dollar ("**NTD**") 5,000,000	100%	100%	100%	Sales of smart hardware
Chongqing Xiaomi Microcredit Co., Ltd.	Mainland China, limited liability company	June 12, 2015	US$450,000,000	100%	100%	100%	Internet finance and consumer loan services
Beijing Xiaomi Mobile Software Co., Ltd.	Mainland China, limited liability company	May 8, 2012	RMB288,000,000	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
Guangdong Xiaomi Inc.	Mainland China, limited liability company	September 21, 2015	RMB1,000,000,000	100%	100%	100%	Provision of software and technology service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, 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, 2020	As of December 31, 2019	As of the date of this report	
Subsidiaries Indirectly held (continued):							
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	RMB951,000,000	100%	100%	100%	Sales of smart hardware
Timi Personal Computing Co., Ltd.	Mainland China, limited liability company	July 28, 2015	RMB2,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology India Private Limited	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)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, 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: As of December 31, 2020	Effective interest held: As of December 31, 2019	Effective interest held: As of the date of this report	Principal activities
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
Beijing Zilin Real Estate Co., Ltd.	Mainland China, limited liability company	November 29, 2018	RMB1,620,000,000	95%	95%	95%	Property management
Xiaomi Commercial Factoring (Tianjin) Co., Ltd.	Mainland China, limited liability company	March 21, 2018	US$380,000,000	100%	100%	100%	Commercial factoring business
Beijing Xiaomi Software Co., Ltd.	Mainland China, limited liability company	December 19, 2011	RMB18,859,500	100%	100%	100%	Research and development of computer software and information technology
PT. Xiaomi Technology Indonesia	Indonesia, limited liability company	April 23, 2018	Indonesian Rupiah ("**IDR**") 13,000,000,000	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Xiaomi Technology (Wuhan) Co., Ltd.	Mainland China, limited liability company	September 1, 2017	RMB210,000,000	100%	100%	100%	Software development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, 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 As of December 31, 2020	Effective interest held As of December 31, 2019	Effective interest held As of the date of this report	Principal activities
Subsidiaries Indirectly held (continued):							
Airstar Bank Limited	Hong Kong, limited liability company	July 13, 2018	HK$1,500,000,000	90%	90%	90%	Virtual banking
Xiaomi Information Technology Wuhan Ltd.	Mainland China, limited liability company	August 3, 2018	RMB123,770,000	100%	100%	100%	Information technology advisory services
Beijing Xiaomi Pinecone Electronics Co., Ltd.	Mainland China, limited liability company	October 16, 2014	RMB250,000,000	100%	100%	100%	Development and sales of electronic products
Chengdu Beida Asset Management Co., Ltd.	Mainland China, limited liability company	August 17, 2017	RMB20,000,000	100%	100%	100%	Asset management, project investment, investment consulting
Beijing Xiaomi Intelligent Technology Co., Ltd.	Mainland China, limited liability company	May 15, 2018	RMB40,000,000	100%	100%	100%	Technology development, technology diffusion, technology transfer, technology consulting
Shenzhen Xiaomi Information Technology Co., Ltd.	Mainland China, limited liability company	September 29, 2019	RMB501,000,000	100%	100%	100%	Sales of smart hardware and provision of advertising and promotion services
XIAOMI TECHNOLOGY ITALY S.R.L.	Italy, limited liability company	September 4, 2018	EUR4,452,500	100%	100%	100%	Sales of smart hardware
Xiaomi Technology Netherlands B.V.	Netherlands, limited liability company	October 29, 2018	EUR1,000,000	100%	100%	100%	Sales of smart hardware

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, 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	
				2020	2019		
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
Sichuan Silver Mi Technology Co., Ltd.	Mainland China, limited liability company	October 26, 2005	RMB2,192,500,000	100%	100%	100%	Research and development of computer software and market research
Jiefu Ruitong Inc.	Mainland China, limited liability company	January 11, 2011	RMB100,000,000	100%	100%	100%	Provision of electronic payment services
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
Tianjin Gold Mi Investment Partners (Limited Partnership)	Mainland China, limited partnership	July 16, 2014	RMB2,408,957,772	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, 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: As of December 31, 2020	Effective interest held: As of December 31, 2019	Effective interest held: As of the date of this report	Principal activities
Controlled structured entities (Note (a)) (continued):							
Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	December 7, 2017	RMB7,746,000,000	17%	18%	17%	Investment activities
Youpin Information Technology Co., Ltd.	Mainland China, limited liability company	April 4, 2018	RMB50,000,000	100%	100%	100%	E-commerce business

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)

11(b) Investments accounted for using the equity method

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Investments in associate accounted for using the equity method		
— Listed entities (Note (a))	7,994,282	5,499,386
— Unlisted entities	4,787,713	3,801,121
	12,781,995	9,300,507

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	9,300,507	8,639,238
Additions (Note (b))	2,158,405	1,197,944
Disposals (Note (c))	(186,529)	(93,596)
Share of gains/(losses) (Note (d))	1,380,904	(671,822)
Share of other comprehensive (losses)/income	(14,250)	9,279
Share of changes of other reserves	207,140	229,740
Dividends from associates	(38,206)	(10,276)
Impairment provision	(25,976)	—
At the end of the year	12,781,995	9,300,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method (continued)

Notes:

(a) As at December 31, 2020, the fair value of the investments in associates which were listed entities was RMB27,255,565,000.

(b) On May 21, 2020, the Group entered into a share purchase agreement with shareholders of Zimi International Incorporation ("**Zimi**"), pursuant to which, the Group has agreed to acquire 26,995,672 ordinary shares of Zimi, representing an aggregate of 27.44% of the entire issued share capital of Zimi, at a total consideration of approximately RMB823,311,000. The consideration shall be satisfied by cash of approximately RMB182,543,000 and issue of the Company's shares of 54,379,044, of which 50% shares have been issued on June 16, 2020, the closing date, and the remaining would be issued in four equal installments within ten business days after each of the first four anniversaries following the closing, subject to the key performance indicators being reached.

(c) On January 14, 2020, the Group entered into an agreement with Itui International Inc.("**Itui**") to exchange all of the 93,653,572 ordinary shares of Xunlei Limited held by the Group for 35,894,849 Series D preferred shares of Itui, which was recognized as financial assets at fair value through profit or loss amounting to RMB441,347,000.This transaction was closed on April 14, 2020.

(d) On February 21, 2020, Beijing Roborock Technology Co., Ltd., an associate primarily engaging in the operation of developing and selling robotic vacuum cleaners, was successfully listed on the Science and Technology Innovation Board of Shanghai Stock Exchange ("**STAR Market**"), a dilution gain of RMB344,381,000 was recognized accordingly.

On May 8, 2020, Kingsoft Cloud Holdings Limited ("**Kingsoft Cloud**"), an associate primarily engaging in the operation of cloud services, were successfully listed on the Nasdaq Global Select Market ("**NASDAQ Market**"), a dilution gain of RMB1,039,517,000 was recognized accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(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, 2020 and 2019. 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, 2020 RMB'000	Quoted fair value As of December 31, 2019 RMB'000	Carrying amount As of December 31, 2020 RMB'000	Carrying amount As of December 31, 2019 RMB'000
Sichuan Xin Wang Bank Co., Ltd. ("**XW Bank**")	Mainland China	29.5	Provision of internet banking service	**NA**	NA	**1,478,232**	1,269,913
iQIYI, Inc. ("**iQIYI**")	Cayman Islands	6.2	Provision of internet video streaming services	**5,570,375**	7,192,441	**3,448,582**	3,769,444

The associates of the Group have been accounted by 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)

11(b) Investments accounted for using the equity method (continued)

Set out below are the summarized financial information of material associates.

	XW Bank		iQIYI	
	As of December 31,		As of December 31,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated balance sheets				
Current assets	10,404,162	10,427,012	22,290,424	20,272,838
Non-current assets	30,156,460	33,726,206	35,469,677	34,721,946
Current liabilities	14,546,314	21,007,556	24,854,578	20,173,166
Non-current liabilities	21,003,353	18,840,873	16,280,221	17,455,010
Redeemable non-controlling interests	—	—	108,629	101,542
Non-controlling interests	—	—	79,011	42,376
Equity attributable to owners of the Company	5,010,955	4,304,789	16,437,662	17,222,690
Reconciliation to carrying amounts:				
Group's share of net assets attributable to owners of the associates	1,478,232	1,269,913	1,025,235	1,160,011
Adjustment				
— Goodwill	—	—	2,423,347	2,609,433
Carrying amount	1,478,232	1,269,913	3,448,582	3,769,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method (continued)

	XW Bank		iQIYI	
	Year ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Summarized consolidated income statements and consolidated statements of comprehensive income				
Revenues	**2,356,575**	2,680,662	**29,707,215**	28,993,658
Profit/(loss) from operations	**786,950**	1,302,822	**(6,511,180)**	(9,728,508)
Profit/(loss) before tax	**784,581**	1,302,121	**(7,454,548)**	(10,695,558)
Net profit/(loss)	**706,166**	1,133,181	**(7,477,824)**	(10,747,410)
Other comprehensive income	**—**	—	**435,962**	226,772
Total comprehensive income/(loss)	**706,166**	1,133,181	**(7,041,862)**	(10,520,638)

In addition to the interests in associates 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,	
	2020	2019
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates at the end of the year	**7,855,181**	4,261,150
Aggregate amounts of the Group's share of:		
Net profit/(loss)	**46,244**	(271,592)
Other comprehensive loss	**(42,145)**	(5,996)
Total comprehensive income/(loss)	**4,099**	(277,588)

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)

12 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2020 and 2019 are analyzed as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Current income tax	2,327,725	2,228,609
Deferred income tax (Note 34)	(1,007,003)	(168,913)
Income tax expenses	1,320,722	2,059,696

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,	
	2020	2019
	RMB'000	RMB'000
Profit before income tax	21,633,432	12,162,646
Tax calculated at statutory income tax rate of 25% in mainland China (Note (a))	5,408,358	3,040,662
Tax effects of:		
— Effect of different tax rates in other jurisdictions (Note (b),(c),(d))	(2,728,700)	(617,082)
— Preferential income tax rates applicable to subsidiaries (Note (e))	(690,128)	(1,055,387)
— Tax losses and temporary differences for which no deferred income tax assets was recognized	267,162	347,222
— Expenses not deductible for income tax purposes	445,787	721,596
— Utilization of previously unrecognized deductible tax losses and temporary differences	(468,998)	(25,515)
— Recognition of previously unrecognized deductible tax losses and temporary differences	(228,402)	(285,756)
— Super Deduction for research and development expenses (Note (f))	(428,683)	(301,835)
— Income not subject to tax	(259,776)	(117,241)
— Reversal of deferred income tax assets	—	350,959
— Others	4,102	2,073
Income tax expenses	1,320,722	2,059,696

12 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 28), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("**BVI**") are exempt from BVI income taxes.

(c) Hong Kong income tax
Entities incorporated in Hong Kong are subject to Hong Kong profits tax of which the tax rate was 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under 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.

(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:

Beijing Xiaomi Mobile Software Co., Ltd. ("**Xiaomi Mobile**") was qualified as a "Key Software Enterprise" in the third quarter of 2018, hence it enjoys a preferential income tax rate of 10% retroactively from January 1, 2017. Xiaomi Mobile enjoys the preferential EIT rate of 10% for the years ended December 31, 2020 and 2019.

Xiaomi Digital Technology Co.,Ltd. was qualified as a "High and New Technology Enterprise"in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12 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 announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. 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 year.

(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.

13 Earnings per share

(a) Basic

Basic earnings per share for the years ended December 31, 2020 and 2019 are calculated by dividing the profit or loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	**20,355,504**	10,044,164
Weighted average number of ordinary shares in issue (thousand shares)	**23,986,829**	23,746,463
Basic earnings per share (expressed in RMB per share)	**0.849**	0.423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 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.

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	20,355,504	10,044,164
Weighted average number of ordinary shares in issue (thousand shares)	23,986,829	23,746,463
Adjustments for RSUs and share options granted to employees (thousand shares)	664,800	762,301
Adjustments for share consideration for acquisition of an associate (thousand shares)	16,651	—
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	24,668,280	24,508,764
Diluted earnings per share (expressed in RMB per share)	0.825	0.410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 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, 2020						
Cost	887,568	22,789	2,267,382	775,970	3,995,426	7,949,135
Accumulated depreciation	(429,142)	(15,416)	(17,636)	(494,610)	—	(956,804)
Net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Year ended December 31, 2020						
Opening net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Currency translation differences	(4,984)	(512)	—	(3,879)	(3)	(9,378)
Additions	542,717	2,455	—	305,581	1,263,051	2,113,804
Transfer from construction in progress to buildings and others	—	—	1,365,964	—	(3,554,370)	(2,188,406)
Disposals	(13,294)	(51)	—	(43,268)	(28,489)	(85,102)
Depreciation charge (Note 8)	(223,834)	(2,190)	(68,448)	(223,120)	—	(517,592)
Closing net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
At December 31, 2020						
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 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, 2019						
Cost	642,723	33,932	—	564,076	4,543,071	5,783,802
Accumulated depreciation	(379,599)	(15,627)	—	(320,523)	—	(715,749)
Net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
Year ended December 31, 2019						
Opening net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
Currency translation differences	288	50	—	(2,950)	1	(2,611)
Additions	372,180	2,274	—	247,015	2,511,206	3,132,675
Transfer from construction in progress to buildings	—	—	2,974,650	—	(2,974,650)	—
Disposals	(50,990)	(10,836)	—	(28,579)	(31,690)	(122,095)
Transfer to investment properties (Note 17)	—	—	(707,268)	—	(52,512)	(759,780)
Depreciation charge (Note 8)	(126,176)	(2,420)	(17,636)	(177,679)	—	(323,911)
Closing net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
At December 31, 2019						
Cost	887,568	22,789	2,267,382	775,970	3,995,426	7,949,135
Accumulated depreciation	(429,142)	(15,416)	(17,636)	(494,610)	—	(956,804)
Net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331

Construction in progress as of December 31, 2020 and 2019 mainly comprises new office buildings being constructed in mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Property and equipment (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Administrative expenses	120,863	109,466
Selling and marketing expenses	165,270	124,624
Research and development expenses	201,426	75,223
Cost of sales	30,033	14,598
	517,592	323,911

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 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, 2020					
Cost	248,167	1,426,992	1,080,599	340,711	3,096,469
Accumulated amortization	—	(727,591)	(529,789)	(167,087)	(1,424,467)
Net book amount	248,167	699,401	550,810	173,624	1,672,002
Year ended December 31, 2020					
Opening net book amount	248,167	699,401	550,810	173,624	1,672,002
Currency translation differences	—	26	(9,435)	(4,150)	(13,559)
Additions	5,084	3,123,202	92,632	89,409	3,310,327
Disposals	—	(711)	(1,548)	(35,326)	(37,585)
Amortization charge (Note 8)	—	(504,910)	(97,454)	(63,202)	(665,566)
Closing net book amount	253,251	3,317,008	535,005	160,355	4,265,619
At December 31, 2020					
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 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, 2019					
Cost	282,090	1,408,219	1,084,466	224,578	2,999,353
Accumulated amortization	—	(395,806)	(416,547)	(125,808)	(938,161)
Net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Year ended December 31, 2019					
Opening net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Currency translation differences	—	(29)	(1,200)	402	(827)
Additions	—	18,820	6,461	116,231	141,512
Disposals	(33,923)	—	(9,889)	(277)	(44,089)
Amortization charge (Note 8)	—	(331,803)	(112,481)	(41,502)	(485,786)
Closing net book amount	248,167	699,401	550,810	173,624	1,672,002
At December 31, 2019					
Cost	248,167	1,426,992	1,080,599	340,711	3,096,469
Accumulated amortization	—	(727,591)	(529,789)	(167,087)	(1,424,467)
Net book amount	248,167	699,401	550,810	173,624	1,672,002

Note:

(a) For the purpose of impairment tests of goodwill, goodwill is allocated to groups of cash-generating units. Such groups of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Intangible assets (continued)

Note (continued):

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2020 and 2019 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations by using the discounted cash flow method. 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%. 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, 2020 and 2019.

Amortization charges were expensed off in the following categories in the consolidated income statement:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Administrative expenses	**35,896**	33,968
Selling and marketing expenses	**2,078**	1,080
Research and development expenses	**627,592**	450,738
	665,566	485,786

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, 2020 and 2019, no goodwill or other identifiable intangible assets have been impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Leases

	As of December 31,	
	2020	2019
	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	4,490,143	2,859,297
Properties	865,533	915,581
Other assets	9,948	58,222
	5,365,624	3,833,100
Lease liabilities (Note(b))		
Current	(363,397)	(399,444)
Non-current	(516,482)	(560,804)
	(879,879)	(960,248)

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)

16 Leases (continued)

	Year ended December 31, 2020 RMB'000	2019 RMB'000
(ii) The consolidated income statement includes the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**496,616**	571,336
Interest expense (included in finance costs)	**42,335**	45,881
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	**845,298**	563,400
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	**116,951**	—
	1,501,200	1,180,617

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, 2020 was RMB493,899,000 (2019: RMB578,063,000), including principal elements of lease payments of approximately RMB451,564,000 (2019: RMB532,182,000) and related interest paid of approximately RMB42,335,000 (2019: RMB45,881,000), respectively.

17 Other non-current assets

	As of December 31, 2020 RMB'000	2019 RMB'000
Right-of-use assets (Note 16)	**5,365,624**	3,833,100
Investment properties (Note (a))	**1,213,247**	1,250,932
Others	**396,980**	488,314
	6,975,851	5,572,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note:

(a) Investment properties

	Buildings and facilities RMB'000	Land use right RMB'000	Investment properties in constructions RMB'000	Total RMB'000
COST				
At January 1, 2020	711,432	504,895	79,313	1,295,640
Transfer to property and equipment	—	—	(3,556)	(3,556)
Transfer to right-of-use assets	—	(5,442)	—	(5,442)
Transfer from investment property in constructions to buildings and facilities	75,757	—	(75,757)	—
At December 31, 2020	787,189	499,453	—	1,286,642
ACCUMULATED DEPRECIATION				
At January 1, 2020	(4,190)	(40,518)	—	(44,708)
Charge for the year (Note 8)	(17,980)	(10,707)	—	(28,687)
At December 31, 2020	(22,170)	(51,225)	—	(73,395)
NET BOOK VALUE				
At December 31, 2020	765,019	448,228	—	1,213,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

	Buildings and facilities RMB'000	Land use right RMB'000	Investment properties in constructions RMB'000	Total RMB'000
COST				
At January 1, 2019	—	—	—	—
Transfer from property and equipment	711,432	—	52,512	763,944
Transfer from right-of-use assets	—	504,895	—	504,895
Additions	—	—	26,801	26,801
At December 31, 2019	711,432	504,895	79,313	1,295,640
ACCUMULATED DEPRECIATION				
At January 1, 2019	—	—	—	—
Charge for the year (Note 8)	(26)	—	—	(26)
Transfer from property and equipment	(4,164)	—	—	(4,164)
Transfer from right-of-use assets	—	(40,518)	—	(40,518)
At December 31, 2019	(4,190)	(40,518)	—	(44,708)
NET BOOK VALUE				
At December 31, 2019	707,242	464,377	79,313	1,250,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 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, 2020 are as follows:

	As of December 31,			
	2020		2019	
	Carrying amount	Fair value (level 3)	Carrying amount	Fair value (level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Investment property units				
Located in Haidian, Beijing	1,120,141	1,554,140	1,148,225	1,557,120
Located in Yizhuang, Beijing	83,254	115,600	—	—

The Group's investment properties were valued at December 31, 2020 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalisation of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31, 2020. The key inputs were term yield and reversionary yield which ranged from 3% to 6% and from 3% to 7%, respectively (2019: from 3% to 5% and from 3% to 6%, respectively).

The above investment properties are leased to tenants under operating leases with rentals payable semiannually. Lease payments for the contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(ii) Property rental income earned during the year ended December 31, 2020 was approximately RMB94,701,000 (2019: RMB8,746,000). The investment property unit located in Haidian, Beijing has committed tenants for the next 5 years. The investment property unit located in Yizhuang, Beijing has committed tenants for the next 13 years. As of December 31, 2020, as a lessor, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
No later than 1 year	**94,701**	94,722
Later than 1 year and no later than 13 years	**475,285**	570,070
	569,986	664,792

(iii) Depreciation charges of approximately RMB28,687,000 for the year ended December 31, 2020 have been charged in profit or loss (2019: RMB26,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Financial instruments by category

	As of December 31,	
	2020	2019
	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 19)	35,215,319	20,679,363
— Short-term investments measured at fair value through profit or loss (Note 19)	22,376,387	16,463,390
— Short-term investments measured at fair value through other comprehensive income (Note 19)	797,456	—
— Bills receivables measured at fair value through other comprehensive income	200,000	—
Financial assets measured at amortized costs:		
— Trade receivables (Note 21)	10,161,019	6,948,567
— Loan receivables (Note 20)	8,919,088	12,723,503
— Other receivables	9,099,090	12,246,498
— Long-term investments measured at amortized cost (Note 19)	232,798	—
— Long-term bank deposits (Note 24(c))	9,608,677	590,157
— Short-term bank deposits (Note 24(c))	17,598,946	21,523,043
— Restricted cash (Note 24(b))	3,625,257	1,538,266
— Cash and cash equivalents (Note 24(a))	54,752,443	25,919,861
	172,586,480	118,632,648
Liabilities as per balance sheet		
Financial liabilities measured at amortized cost:		
— Trade payables (Note 30)	72,198,856	59,527,940
— Other payables	9,826,091	6,080,191
— Borrowings (Note 33)	17,596,743	17,623,411
— Liabilities to fund investors (Note 29)	9,364,533	3,074,210
— Lease liabilities (Note 16)	879,879	960,248
	109,866,102	87,266,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 Investments

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Fair value through other comprehensive income (i)	797,456	—
— Fair value through profit or loss (ii)	22,376,387	16,463,390
	23,173,843	16,463,390
Non-current assets		
Long-term investments measured at amortized cost (i)	232,798	—
Long-term investments measured at fair value through profit or loss		
— Equity investments (iii)	13,969,457	7,272,454
— Preferred shares investments (iv)	21,245,862	13,406,909
	35,448,117	20,679,363

(i) Investments measured at fair value through other comprehensive income and amortized cost

Investments measured at fair value through other comprehensive income and amortized cost are mainly debt securities, denominated in HKD and USD, where the contractual cash flows are solely principal and interest. The securities are mainly issued by banks and the fair value of such debt securities was determined based on quoted price on interbank 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 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 USD, with expected rates of return ranging from 0.65% to 7.20% per annum for the year ended December 31, 2020 (2019: 1.76% to 4.60%). The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy (refer to Note 3.3 for details).

(iii) Equity investments

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Listed	10,619,788	4,778,263
Unlisted	3,349,669	2,494,191
	13,969,457	7,272,454

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. 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. And as of December 31, 2020, the Group has not elected to recognize the fair value gains or losses on these equity investments in OCI.

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)

19 Investments (continued)

(iv) Preferred shares investments

During the year ended December 31, 2020, the Group made aggregate preferred shares investments of RMB5,472,801,000 (2019: RMB2,675,086,000). These investees are principally engaged in sales of goods and provision of internet services.

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Fair value changes on equity investments	8,425,388	2,322,349
Fair value changes on preferred shares investments	4,068,659	1,452,273
Fair value changes on short-term investments measured at fair value through profit or loss	679,432	38,390
	13,173,479	3,813,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Loan receivables

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Unsecured loan	11,350,989	14,393,240
Secured loan	377,183	—
Less: credit loss allowance	(2,809,084)	(1,669,737)
	8,919,088	12,723,503

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 generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

21 Trade receivables

Trade receivables analysis is as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Third parties	10,123,256	6,740,321
Related parties	238,523	324,027
	10,361,779	7,064,348
Less: credit loss allowance	(200,760)	(115,781)
	10,161,019	6,948,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 Trade receivables (continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
RMB	6,139,705	3,757,863
INR	1,878,880	1,758,770
US$	1,660,117	1,239,122
Others	482,317	192,812
	10,161,019	6,948,567

Movements on the Group's credit loss allowance of trade receivables are as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	(115,781)	(68,597)
Credit loss allowance recognized, net	(101,264)	(79,712)
Receivables written off during the year as uncollectable	16,285	32,528
At the end of the year	(200,760)	(115,781)

(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,	
	2020	2019
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	9,400,187	6,076,873
3 to 6 months	534,660	550,929
6 months to 1 year	234,844	308,197
1 to 2 years	110,291	98,643
Over 2 years	81, 797	29,706
	10,361,779	7,064,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 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, 2019 and 2020 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, 2020:					
Expected loss rate	0.90%	2.99%	18.36%	57.17%	
Gross carrying amount (in thousand)	9,532,268	616,190	65,526	147,795	10,361,779
Loss provision (in thousand)	85,810	18,421	12,031	84,498	200,760
December 31, 2019:					
Expected loss rate	0.03%	1.29%	9.55%	50.14%	
Gross carrying amount (in thousand)	5,822,380	856,086	222,699	163,183	7,064,348
Loss provision (in thousand)	1,627	11,066	21,269	81,819	115,781

As of December 31, 2020 and 2019, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Prepayments and other receivables

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	7,363,158	9,292,072
Recoverable value-added tax and other taxes	5,649,195	6,782,745
Prepayments to suppliers	996,788	394,090
Deposits to suppliers	343,141	375,868
Receivables from market development fund	304,787	895,773
Prepaid fees for patent expenses and other prepaid expenses	436,447	413,685
Receivables from employees related to Employee Fund (Note (a))	100,750	103,900
Interest receivables	444,441	254,912
Loans to related parties (Note (b))	11,197	37,802
Receivables related to share options and RSUs granted to employees	300,772	862,545
Others	230,844	423,626
	16,181,520	19,837,018

Notes:

(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 28.

(b) Loans to related parties were unsecured, repayable on demand and carried interest rate at ceiling of 8% per annum (2019: 8%).

As of December 31, 2020 and 2019, 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, interest receivables, loans to related parties, receivables related to share options and RSUs granted to employees and others which were considered to be of low credit risk, and thus credit loss allowance recognized during the year ended December 31, 2020 and 2019 was limited to 12 months expected losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

23 Inventories

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Raw materials	15,684,698	9,347,930
Finished goods	17,909,963	18,030,136
Work in progress	4,135,024	2,422,504
Spare parts	1,967,593	1,733,042
Others	3,199,153	1,925,785
	42,896,431	33,459,397
Less: provision for impairment (Note (a))	(1,225,712)	(873,959)
	41,670,719	32,585,438

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 RMB3,688,809,000 for the year ended December 31, 2020 (2019: RMB3,859,675,000).

Provision for impairment movements for the years ended December 31, 2020 and 2019 are as below:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	(873,959)	(1,852,051)
Provision for impairment	(3,688,809)	(3,859,675)
Transfer to cost of sales upon sold	3,337,056	4,837,767
At the end of the year	(1,225,712)	(873,959)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Cash at bank and in hand	33,633,408	13,355,455
Short-term bank deposits with initial terms within three months	21,119,035	12,564,406
	54,752,443	25,919,861

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
US$	36,251,899	10,322,132
RMB	12,934,190	9,217,142
INR	4,023,008	3,500,056
Others	1,543,346	2,880,531
	54,752,443	25,919,861

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 1.79% per annum for the year ended December 31, 2020 (2019: 2.76%).

(b) Restricted cash

As of December 31, 2020, restricted cash mainly represented RMB2,155,606,000 held at People's Bank of China to meet the requirements of payment institutions and RMB500,000,000 held at China Citic Bank as guarantee for bank acceptance bills.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Cash and bank balances (continued)

(c) Term bank deposits

An analysis of the Group's term bank deposits as of December 31, 2020 and 2019 are listed as below:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Short-term bank deposits denominated in:		
RMB	4,561,000	—
INR	87	392,823
US$	13,037,859	20,597,231
HK$	—	532,989
	17,598,946	21,523,043
Long-term bank deposits denominated in:		
RMB	9,607,071	590,000
INR	1,606	157
	9,608,677	590,157

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 0.7% to 7.45% and from 3.14% to 7.40% per annum for the year ended December 31, 2020, respectively (2019: from 2.38% to 7.30%, and from 3.80% to 7.45%, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares

(a) Share capital

Authorized:

As of December 31, 2020 and 2019, 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, 2019		23,626,423	58	377	43,851,282
Exercise of share options and RSUs		690,361	1	9	1,442,634
Shares repurchased and cancelled		(227,956)	—	1	(1,882,527)
Issuance of ordinary shares to Share Scheme Trusts	(a)	18,567	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	1	167,447
As of December 31, 2019		24,107,395	59	388	43,578,836
Exercise of share options and RSUs		184,201	—	4	1,511,225
Shares repurchased and cancelled		(158,727)	—	—	(1,349,709)
Issuance of ordinary shares to Share Scheme Trusts	(a)	27,145	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	—	687,235
Share issued for acquisition of an associate		27,294	—	1	320,384
Issuance of shares upon placement	(b)	1,000,000	3	16	19,907,920
As of December 31, 2020		25,187,308	62	409	64,655,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares (continued)

(a) Share capital (continued)

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").

(b) On December 9, 2020, the Company allotted and issued 1,000,000,000 Class B ordinary shares to independent third parties, at the price of HK$23.70 for each placing share, and raised gross proceeds of approximately HK$23,700,000,000 (equivalent to RMB19,946,103,000). The respective share capital amount was approximately RMB16,000 and share premium arising from the issuance was approximately RMB19,907,920,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB38,167,000 were treated as a deduction against the share premium arising from the issuance.

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2019	—	—
Shares repurchased	358,196	2,932,111
Shares cancelled	(227,956)	(1,879,289)
As of December 31, 2019	130,240	1,052,822
As of January 1, 2020	**130,240**	**1,052,822**
Shares repurchased	**48,410**	**454,872**
Shares cancelled	**(158,727)**	**(1,345,663)**
Release of ordinary shares from Share Scheme Trusts	**(15,634)**	**(125,807)**
As of December 31, 2020	**4,289**	**36,224**

During the year ended December 31, 2020, 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$
April 2020	48,410	10.52	10.12	499,541,868

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 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, 2020	6,137,329	462,913	1,157,727	2	(77)	–	273,252	8,031,146
Appropriation to statutory reserves (Note (a))	–	–	182,626	–	–	–	–	182,626
Appropriation to general reserves	–	–	–	32,945	–	–	–	32,945
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 28)	1,978,166	–	–	–	–	–	–	1,978,166
– exercise of share options and restricted stock units	(1,179,339)	–	–	–	–	–	–	(1,179,339)
Share of other comprehensive loss of investments accounted for using the equity method (Note 11(b))	–	–	–	–	–	–	(14,250)	(14,250)
Share of other reserves of investments accounted for using the equity method (Note 11(b))	–	–	–	–	207,140	–	–	207,140
Currency translation differences (Note (b))	–	(2,346,644)	–	–	–	–	–	(2,346,644)
Release of ordinary shares from Share Scheme Trust (Note 25(a)(a))	(783,805)	–	–	–	–	–	–	(783,805)
Issuance of convertible bonds (equity component)(Note 33(e))	–	–	–	–	–	1,764,799	–	1,764,799
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(3,385)	(3,385)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	–	–	–	–	(4,773)	–	–	(4,773)
Share consideration for acquisition of an associate (Note 11(b))	–	–	–	–	320,384	–	–	320,384
Others	–	–	–	–	–	–	(26,349)	(26,349)
At December 31, 2020	6,152,351	(1,883,731)	1,340,353	32,947	522,674	1,764,799	229,268	8,158,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Other reserves (continued)

	Share-based compensation reserve	Currency translation differences	Statutory surplus reserve	General reserve	Capital reserve	Conversion option	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	5,333,233	43,442	862,680	–	(55,913)	–	263,973	6,447,415
Appropriation to statutory reserves (Note (a))	–	–	295,047	–	–	–	–	295,047
Appropriation to general reserves	–	–	–	2	–	–	–	2
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 28)	2,127,878	–	–	–	–	–	–	2,127,878
– exercise of share options and restricted stock units	(1,184,767)	–	–	–	–	–	–	(1,184,767)
Share of other comprehensive income of investments accounted for using the equity method (Note 11(b))	–	–	–	–	–	–	9,279	9,279
Share of other reserves of investments accounted for using the equity method (Note 11(b))	–	–	–	–	229,740	–	–	229,740
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	–	(173,904)	–	–	(173,904)
Currency translation differences (Note (b))	–	419,471	–	–	–	–	–	419,471
Release of ordinary shares from Share Scheme Trust (Note 25(a)(a))	(139,015)	–	–	–	–	–	–	(139,015)
At December 31, 2019	6,137,329	462,913	1,157,727	2	(77)	–	273,252	8,031,146

26 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 28 for detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2020 and 2019.

28 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 as of December 31, 2020 and 2019. 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.

28 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 QPO 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)

28 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, 2020	**855,801,907**	**0.12**
Forfeited during the year	**(23,682,000)**	**0.33**
Transferred to Share Scheme Trust (Note 25(a)(a))	**(42,086,960)**	**0.10**
Exercised during the year	**(184,201,077)**	**0.17**
Outstanding as of December 31, 2020	**605,831,870**	**0.10**
Exercisable as of December 31, 2020	**281,564,590**	**0.25**
Outstanding as of January 1, 2019	1,433,597,913	0.10
Forfeited during the year	(54,982,220)	0.31
Transferred to Share Scheme Trust (Note 25(a)(a))	(42,306,480)	0.10
Exercised during the year	(480,507,306)	0.04
Outstanding as of December 31, 2019	855,801,907	0.12
Exercisable as of December 31, 2019	340,290,647	0.20

The weighted-average remaining contract life for outstanding share options was 5.48 years as of December 31, 2020 (2019: 6.22 years).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

RSUs granted to employees

The Company also granted RSUs to the Company's employees under Pre-IPO ESOP. The RSUs granted would vest on the second anniversary from the grant date, and in equal tranches over the remaining years of total vesting period as four or five years, on condition that employees remain in service without any performance requirements.

The RSUs may be settled at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the RSUs that have become vested.

Movements in the number of RSUs granted to the Company's employees under Pre-IPO ESOP and the respective weighted-average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2019	207,161,980	0.23
Exercised during the year	(207,161,980)	0.23
Outstanding as of December 31, 2019 and 2020	—	—
Vested as of December 31, 2019 and 2020	—	—

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 share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Group with best estimate.

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the Company that issued to its shareholders.

The total expenses recognized in the consolidated income statement for aforementioned share-based awards granted to the Group's employees are RMB1,124,164,000 for the year ended December 31, 2020 (2019: RMB1,898,081,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

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, 2020 and 2019.

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 one year, 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as one year, all granted RSUs are vested on the first anniversary of the service commencement date. For vesting schedule as 4 years, 25% of granted RSUs are vested on every anniversary of the service commencement date over the vesting period. For vesting schedule as 5 years, 40% of granted RSUs are vested on the second anniversary of the service commencement date, and every 20% of granted RSUs are vested on the third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 20% of granted RSUs are vested on the second anniversary of the service commencement date, and every 10% of granted RSUs 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 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)

28 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 granted 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, 2020	**90,106,933**	**1.20**
Granted during the year	**137,947,024**	**1.77**
Forfeited during the year	**(20,867,644)**	**1.29**
Transferred to Share Scheme Trust (Note 25(a)(a))	**(31,785,195)**	**1.15**
Outstanding as of December 31, 2020	**175,401,118**	**1.65**
Outstanding as of January 1, 2019	—	—
Granted during the year	98,449,031	1.20
Forfeited during the year	(5,415,702)	1.22
Transferred to Share Scheme Trust (Note 25(a)(a))	(234,396)	1.45
Exercised during the year	(2,692,000)	1.39
Outstanding as of December 31, 2019	90,106,933	1.20
Vested as of December 31, 2019	40,000	1.45

The weighted-average remaining contract life for outstanding RSUs granted under Share Award Scheme was 9.06 years as of December 31, 2020 (2019: 9.45 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.

The total expenses recognized in the consolidated income statement for RSUs granted to the Group's employees under Share Award Scheme are RMB703,929,000 for the year ended December 31, 2020 (2019: RMB229,886,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 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, 2020	—	—
Granted during the year	227,250,000	24.26
Outstanding as of December 31, 2020	227,250,000	24.26
Exercisable as of December 31, 2020	—	—

The weighted-average remaining contract life for outstanding share options was 9.68 years as of December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Post-IPO Share Option Scheme (continued)

Share options granted to employees (continued)

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, 2020
Fair value per share	HK$13.60–24.50
Exercise price	HK$13.60–24.50
Risk-free interest rate	0.53%–0.67%
Dividend yield	—
Expected volatility	41.50%–42.55%
Expected terms	10 years

The weighted-average fair value of granted shares was HK$12.05 per share for the year ended December 31, 2020.

The total expenses recognized in the consolidated income statements for share options granted to the Group's employees under Post-IPO Share Option Scheme were RMB150,353,000 for the year ended December 31, 2020 (2019: nil).

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, 2020.

The total expenses recognized in the consolidated income statement for the Employee Fund granted to the Group's employees are RMB349,873,000 for the year ended December 31, 2020 (2019: RMB73,755,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Other non-current liabilities

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Liabilities to fund investors (Note (a))	9,364,533	3,074,210
Lease liability (Note 16)	516,482	560,804
Others	120,413	121,197
	10,001,428	3,756,211

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**"). The Group controls the Hubei Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. For the amount raised from limited partners, 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.

30 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2020 and 2019, 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,	
	2020	2019
	RMB'000	RMB'000
Up to 3 months	68,909,758	57,942,872
3 to 6 months	2,312,665	1,136,595
6 months to 1 year	873,537	342,864
1 to 2 years	34,200	55,709
Over 2 years	68,696	49,900
	72,198,856	59,527,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

31 Other payables and accruals

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Amounts collected for third parties	2,642,533	1,428,500
Payroll and welfare payables	1,728,843	1,165,183
Deposits payable	1,956,126	1,114,853
Employee Fund (Note 28)	936,714	604,187
Accrual expenses	1,106,137	1,202,807
Payables for construction cost	1,807,120	1,275,467
Payables for investments	116,250	2,500
Other taxes payables	547,339	624,350
Lease liabilities (Note 16)	363,397	399,444
Payables related to share options and RSUs granted to employees	204,385	484,896
Deposits from customers	1,327,919	42
Others	882,892	799,114
	13,619,655	9,101,343

The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values as of December 31, 2020 and 2019.

32 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, 2020, the total contract liabilities amounted to RMB11,116,695,000 (2019: RMB7,248,982,000), which will be recognized as revenue within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

33 Borrowings

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities (Note (a))	465,000	2,305,000
Fund raised through trusts (Note (b))	—	450,000
Secured borrowings (Note (c))	1,594,936	1,825,856
Unsecured borrowings (Note (d))	4,530,856	206,000
Convertible bonds (Note (e))	4,044,014	—
	10,634,806	4,786,856
Included in current liabilities		
Asset-backed securities (Note (a))	3,589,629	2,647,641
Fund raised through trusts (Note (b))	547,500	420,000
Secured borrowings (Note (c))	460,257	1,796,701
Unsecured borrowings (Note (d))	2,364,551	7,972,213
	6,961,937	12,836,555

Notes:

(a) The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("**ABS**"). As of December 31, 2020, the total ABS amounting to RMB4,054,629,000 (2019: RMB4,952,641,000) bore interest at 2.59%-7.50% per annum.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of December 31, 2020, the fund raised through trust amounting to RMB547,500,000 (2019: RMB870,000,000) bore interest 7.00% per annum. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature in 2021.

(c) As of December 31, 2020, RMB2,055,193,000 (2019: RMB2,225,856,000) of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB8,343,327,000 (2019: RMB4,082,853,000). The interest rate of these borrowings was 4.05%-4.66% per annum. Among these borrowings, RMB30,128,000 should be repaid by the end of March 8, 2021, RMB200,000,000 should be repaid by the end of May 10, 2021, RMB30,129,000 should be repaid by the end of September 7, 2021, RMB200,000,000 should be repaid by the end of November 10, 2021, RMB703,963,000 should be repaid by the end of March 23, 2027, RMB452,486,000 should be repaid by the end of December 12, 2027 and RMB438,487,000 should be repaid by the end of September 27, 2032.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

33 Borrowings (continued)

Notes (continued):

(d) The Group issued US$600,000,000 (equivalent to approximately RMB3,914,940,000) senior notes to professional investors on April 29, 2020 with a term to maturity of ten years and at interest rate 3.375% per annum. The net proceeds of the notes issued, after deducting underwriting commissions and certain offering expenses, was approximately US$589,900,000 (equivalent to approximately RMB3,849,039,000).

The Group issued RMB1,000,000,000 bonds in Mainland China on April 2, 2020 with a term to maturity of one year and at coupon rates 2.78% per annum.

The Group had RMB190,000,000 (December 31, 2019: nil) unsecured borrowings with interest rate 5.10% per annum, RMB210,000,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.59% per annum, RMB59,482,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.93% per annum, RMB88,539,000 (December 31, 2019: nil) unsecured borrowings with interest rate 4.31% per annum, RMB97,206,000 (December 31, 2019: nil) unsecured borrowings with interest rate 4.25% per annum, RMB133,212,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.85% per annum, RMB21,130,000 (December 31, 2019: nil) unsecured borrowings with interest rate 2.05% per annum, all of these borrowings should be repaid by the Group in 2021.

The Group had RMB400,000,000 (December 31, 2019: nil) and RMB200,000,000 (December 31, 2019: nil) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in April and June of 2021, respectively. The Group had RMB500,000,000 (December 31, 2019: nil) of borrowings with interest rate 2.69% per annum secured by intra-group companies, which should be repaid by the end of November 20, 2023.

The Group had RMB206,000,000 (December 31, 2019: RMB206,000,000) unsecured borrowings with interest rate 4.66% per annum. Among of these borrowings, RMB21,000,000 should be repaid by the Group in 2021, and RMB185,000,000 should be repaid by the end of November 26, 2029.

(e) On December 17, 2020, the Group completed the issuance of 7-Year US$855,000,000 (equivalent to approximately RMB5,578,790,000) 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 Group will, at the option of the bondholders, redeem all or some only of their Bonds on December 17, 2025 at the principal amount. The Group may at any time after December 17, 2025 and prior to the maturity date redeem in whole, but not in part, (i) the Bonds for the time being outstanding at their principal amount, provided that the closing price of a share, for 20 out of 30 consecutive trading days was at least 130 percent of the conversion price, (ii) the Bonds at their principal amount, if, immediately prior to the date the notice of redemption is given, 90 percent or more in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and canceled. 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)

33 Borrowings (continued)

Notes (continued):

(e) (continued):

The liabilities and equity components of the Bonds are presented as follows:

	RMB'000
The face value of convertible bond issued on the issue date	5,578,790
Issue premium	292,886
Gross proceeds	5,871,676
Less: transaction cost	(70,654)
Net proceeds	5,801,022
Less: equity component (Note 26)	(1,764,799)
Liability component on initial recognition	4,036,223
Interest expense (Note 10)	7,791
Liability component as of December 31, 2020	4,044,014

For the year ended December 31, 2020, the interest rates of the interest-bearing liabilities range from 2.05% to 7.50% per annum (2019: from 2.82% to 8.00%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 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 RMB66,396,000 as of December 31, 2020 (2019: RMB122,961,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	592,355	560,577
— to be recovered within 12 months	1,485,113	845,799
	2,077,468	1,406,376
Deferred income tax liabilities:		
— to be settled after 12 months	(364,441)	(700,275)
— to be settled within 12 months	(2,511)	(2,588)
	(366,952)	(702,863)

The gross movement on the deferred income tax assets is as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	1,406,376	1,405,995
Credited to the consolidated income statement	671,092	381
At the end of the year	2,077,468	1,406,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes (continued)

The gross movement on the deferred income tax liabilities is as follows:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
At the beginning of the year	(702,863)	(871,395)
Credited to the consolidated income statement	335,911	168,532
At the end of the year	(366,952)	(702,863)

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	Others RMB'000	Total RMB'000
At January 1, 2020	332,358	119,799	89,485	372,906	80,615	142,853	250,790	17,570	1,406,376
Credited/(debited) to consolidated income statement	188,650	106,927	(38,352)	58,071	(11,743)	340,665	3,071	23,803	671,092
At December 31, 2020	521,008	226,726	51,133	430,977	68,872	483,518	253,861	41,373	2,077,468
At January 1, 2019	231,460	385,369	93,677	359,199	80,341	92,961	156,440	6,548	1,405,995
Credited/(debited) to consolidated income statement	100,898	(265,570)	(4,192)	13,707	274	49,892	94,350	11,022	381
At December 31, 2019	332,358	119,799	89,485	372,906	80,615	142,853	250,790	17,570	1,406,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes (continued)

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, 2020, the Group did not recognize deferred income tax assets of RMB453,352,000 (2019: RMB966,068,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB1,924,936,000 (2019: RMB3,479,308,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2020 amounting to RMB1,240,366,000 (2019: RMB27,395,000) can be carried forward indefinitely, and the remaining amount of RMB531,181,000 (2019: RMB3,377,006,000) will expire within 15 years (2019: 9 years).

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:

	Changes in fair value of financial assets RMB'000	Depreciation of property and equipment and amortization of intangible assets RMB'000	Business combination RMB'000	Total RMB'000
At January 1, 2020	(700,275)	—	(2,588)	(702,863)
Credited/(debited) to consolidated income statement	374,942	(39,108)	77	335,911
At December 31, 2020	(325,333)	(39,108)	(2,511)	(366,952)
At January 1, 2019	(868,381)	—	(3,014)	(871,395)
Credited to consolidated income statement	168,106	—	426	168,532
At December 31, 2019	(700,275)	—	(2,588)	(702,863)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Cash flow information

(a) Cash generated from operations

	Year Ended December 31,	
	2020	2019
	RMB'000	RMB'000
Profit before income tax	21,633,432	12,162,646
Adjustments for:		
— Depreciation of property and equipment, right-of-use assets and investment properties	1,042,895	895,273
— Amortization of intangible assets	665,566	485,786
— Gain on disposal of property and equipment	(6,475)	(5,909)
— Credit loss allowance for trade and other receivables	222,718	83,357
— Credit loss allowance for loan receivables	1,757,680	1,015,619
— Impairment provision for inventories	3,688,809	3,859,675
— Interest income	(963,555)	(930,889)
— Interest expense	3,364,852	528,460
— Dividend income	(81,407)	(347,205)
— Share of (gains)/losses of investments accounted for using the equity method	(1,380,904)	671,822
— (Gains)/losses on disposal of an investment accounted for using the equity method	(280,011)	13,376
— Fair value gains on long-term investments measured at fair value through profit or loss	(13,173,479)	(3,813,012)
— Share-based compensation	2,328,319	2,201,722
— Foreign exchange losses/(gains), net	693,222	(34,632)
— Investment income from short-term investments measured at fair value through profit or loss	—	(386,461)
Operating cash flows before changes in working capital		
— Increase in inventories	(11,602,421)	(6,964,428)
— Increase in trade receivables	(4,272,814)	(1,276,714)
— Decrease/(increase) in loan receivables	727,548	(3,448,312)
— Decrease in prepayments and other receivables	3,624,788	1,956,740
— Increase in restricted cash	(2,407,001)	(136,394)
— Increase in trade payables	10,341,399	13,534,575
— Increase in advance from customers	3,765,667	3,758,590
— Increase in warranty provision	609,431	983,654
— Increase in other payables and accruals	3,534,327	1,045,058
— (Decrease)/increase in other non-current liabilities	(784)	99,842
Cash generated from operations	23,831,802	25,952,239

35 Cash flow information (continued)

(b) Proceeds from disposal of property and equipment

In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net book amount (Note 14)	**56,613**	61,826
Gain on disposal of property and equipment	**6,475**	5,909
Proceeds from disposal of property and equipment	**63,088**	67,735

(c) Non-cash transactions

Other than addition of right-of-use assets and lease liabilities described in Note 16, the dilution gains of investments accounted for using the equity method recognized as described in Note 11(b) and the issue of shares as consideration of investment in an associate as described in Note 11(b), there were no material non-cash transactions for the year ended December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Cash flow information (continued)

(d) 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	Lease liabilities RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2020	12,836,555	4,786,856	78,959	960,248	18,662,618
Cash flows	(9,542,628)	13,339,443	(499,711)	(493,899)	2,803,205
Accrued interest expenses	—	—	515,257	—	515,257
Foreign exchange adjustments	(51,917)	(319,094)	—	—	(371,011)
Reclassification from non-current to current	5,361,428	(5,361,428)	—	—	—
Equity component of convertibel bonds	—	(1,764,799)	—	—	(1,764,799)
Other non-cash movements	(1,641,501)	(46,172)	—	—	(1,687,673)
Acquisition — leases	—	—	—	413,530	413,530
Liabilities from financing activities as of December 31, 2020	6,961,937	10,634,806	94,505	879,879	18,571,127
Liabilities from financing activities as of January 1, 2019	3,075,194	7,856,143	96,192	858,833	11,886,362
Cash flows	1,790,061	4,829,238	(218,994)	(578,063)	5,822,242
Accrued interest expenses	—	—	201,761	—	201,761
Foreign exchange adjustments	(52,214)	108,711	—	—	56,497
Reclassification from non-current to current	8,024,034	(8,024,034)	—	—	—
Acquisition — leases	—	—	—	679,478	679,478
Others	(520)	16,798	—	—	16,278
Liabilities from financing activities as of December 31, 2019	12,836,555	4,786,856	78,959	960,248	18,662,618

36 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. Although based on currently available information, the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or result of operations, litigations are inherently unpredictable. Therefore, the Group could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period. As of December 31, 2020 and 2019, no material provisions were recorded.

37 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,	
	2020	2019
	RMB'000	RMB'000
Property and equipment	**1,558,000**	1,747,044
Intangible assets	**33,437**	28,810
Investments	**529,026**	217,506
	2,120,463	1,993,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

37 Commitments (continued)

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Not later than 1 year	**620,398**	305,186
Later than 1 year and not later than 5 years	**41,660**	—
Later than 5 years	**14,924**	—
	676,982	305,186

From January 1, 2019, in accordance with IFRS 16, the Group has recognized right-of-use assets for these leases, except for certain short-term leases and variable lease payments, see Note 16 for further information.

38 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.

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(a) Names and relationships with related parties

The following companies are related parties of the Group that had significant transactions and/or balances with the Group during the year.

Company	Relationship
Shunwei Ventures (Hong Kong) Ltd. (Note (a))	Associate of Leijun
1 more Inc. (Note (a))	Associate of the Group
Shanghai Chuangmi Technology Co., Ltd. (Note (a))	Associate of the Group
Miaobo Software Technology (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Kaco Industrial Co., Ltd. (Note (a))	Associate of the Group
70mai Co. (Note (a))	Associate of the Group
Hannto Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Runmi Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Chunmi Electronic Technology Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Longcheer Technology Co., Ltd. (Note 11(b))	Associate of the Group
Dongguan Powerise Fashion Technology Co., Ltd. (Note (a))	Associate of the Group
Liesheng Technology (Dongguan) Co., Ltd. (Note (a))	Associate of the Group
Dongguan Yingsheng Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Foshan Yunmi Electrical Technology Co., Ltd. (Note 11(b))	Associate of the Group
Yidian Inc. (Note (a))	Associate of the Group
Ninebot Limited (Note 11(b))	Associate of the Group
Beijing Yuemi Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing SmartMi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing iQIYI Science&Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Miiiw Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing KingSmith Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Kingsoft Cloud Network Technology Co., Ltd. (Note 11(b))	Associate of the Group
Nanjing Jiqidao Smart Technology Co., Ltd. (Note 11(b))	Associate of the Group
Nanchang Blackshark Technology Co., Ltd. (Note 11(b))	Associate of the Group
Nanchang Longcheer Techolongy Co., Ltd. (Note 11(b))	Associate of the Group
Tianjin HUALAI Technology Co., Ltd. (Note (a))	Associate of the Group
Tianjin Smate Technology Co., Ltd. (Note (a))	Associate of the Group
Ningbo Minij Trading Co., Ltd. (Note (a))	Associate of the Group
Ningbo Scishare Techoloogy CO., Ltd. (Note (a))	Associate of the Group
Ningbo Lofans Home Appliance Co., Ltd. (Note (a))	Associate of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(a) Names and relationships with related parties (continued)

Company	Relationship
Anhui Huami Information Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Fengmi Technology Co., Ltd. (Note (a))	Associate of the Group
Turok Steinhardt (Beijing) Optical Technology Co., Ltd. (Note (a))	Associate of the Group
Shoulder Electronics Limited (Note (a))	Associate of the Group
QingHeXiaoBei (Wuxi) Inc. (Note (a))	Associate of the Group
LeXiu Technology (Hangzhou) Co., Ltd. (Note (a))	Associate of the Group
Jiangsu Zimi Electronic Technology Co., Ltd. (Note 11(b))	Associate of the Group
Zhejiang Hooeasy Smart Technology Co., Ltd. (Note (a))	Associate of the Group
Zhejiang Xingyue Electric Equipment Co., Ltd. (Note (a))	Associate of the Group
Luokeshidai Technology (Shenzhen) Co., Ltd. (Note 11(b))	Associate of the Group
SOOCAS Technology Co., Ltd. (Note (a))	Associate of the Group
Shenzhen Lumi Technology Co., Ltd. (Note (a))	Associate of the Group
Zhuhai Kingsoft Online Game Technology Co., Ltd. (Note 11(b))	Associate of the Group
Zhenshi Information Technology (Shanghai) Co., Ltd. (Note (a))	Associate of the Group
MiaoMiaoCe Technology (Beijing) Co., Ltd. (Note (a))	Associate of the Group
Zimi Communication Technology (Jiangsu) Co., Ltd. (Note 11(b))	Associate of the Group
Chunmi Technology (Wuhu) Co., Ltd. (Note 11(b))	Associate of the Group
Forewin FPC (Suzhou) CO., Ltd. (Note (a))	Associate of the Group
Westhouse Holdings Limited (Note 11(b))	Associate of the Group
Dreame Technology (Tianjin) Ltd. (Note (a))	Associate of the Group
Qingdao Yeelink Information Technology Co., Ltd. (Note (a))	Associate of the Group
ChingMi (Beijing) Technology Co., Ltd. (Note 11(b))	Associate of the Group
PL-Mi (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Qiji (Xiamen) Technology Co., Ltd. (Note (a))	Associate of the Group
Longcheer Technology (Huizhou) Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Roborock Technology Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai HOTO Technology Co., Ltd. (Note 11(b))	Associate of the Group

Notes:

(a) The Group's investments were made in the form of ordinary shares with preferential rights or convertible redeemable preferred shares which are accounted as financial assets measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(b) Significant transactions with related parties

	Year ended December 31, 2020 RMB'000	2019 RMB'000
(i) Sales of goods and services		
Associates of the Group	1,356,945	1,666,141
Associates of Lei Jun	3,619	2,156
	1,360,564	1,668,297
(ii) Purchases of goods and services		
Associates of the Group	37,204,257	27,221,258
Associates of Lei Jun	4,282	517
	37,208,539	27,221,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(c) Year end balances with related parties

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
(i) Trade receivables from related parties		
Associates of the Group	234,741	324,027
Associates of Lei Jun	3,782	—
	238,523	324,027
(ii) Trade payables to related parties		
Associates of the Group	8,052,768	6,061,497
Associates of Lei Jun	1,494	1,829
	8,054,262	6,063,326
(iii) Other receivables from related parties		
Associates of the Group	335,788	373,071
(iv) Other payables to related parties		
Associates of the Group	397,540	861,736
Controlled by a director	—	79,466
Associates of Lei Jun	91,047	7,476
	488,587	948,678
(v) Prepayments		
Associates of the Group	206,310	136,899
(vi) Advance from customers		
Associates of the Group	986,340	28,308
Associates of the Lei Jun	3,040	14
	989,380	28,322

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)

38 Related party transactions (continued)

(d) Loans to related parties

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Loans to associates:		
At the beginning of the year	37,802	7,979
Loans advanced	—	34,934
Loans repaid	(6,787)	(6,000)
Interest charged	16	962
Interest received	(81)	(70)
Less: credit loss allowance	(19,095)	—
Currency translation differences	(658)	(3)
At the end of the year	11,197	37,802

(e) Key management compensation

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Salaries	24,960	11,676
Discretionary bonuses	2,032	7,600
Share-based compensation	454,151	428,811
Employer's contribution to pension schedule	1,282	1,159
	482,425	449,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Events after the reporting period

On March 11, 2021, the Company announced that it has an intention to repurchase shares of the Company in the open market from time to time at a maximum aggregate price of HK$10 billion, which will not exceed 10% of the total number of the issued shares as at June 23, 2020. The Company will conduct the share repurchase under the requirement of Listing Rules.

On March 24, 2021, the Company entered into a share purchase agreement with shareholders of Zimi International Incorporation ("**Zimi**"), pursuant to which the Company has conditionally agreed to acquire, and each shareholder of Zimi has conditionally agreed to sell 49,270,778 shares, representing an aggregate of 50.09% of the entire issued share capital of Zimi, at a total consideration of approximately US$204.73 million, which shall be satisfied (a) as to approximately US$176.28 million in cash; and (b) as to approximately US$28.45 million by the allotment and issue of 8,670,924 ordinary shares, credited as fully paid by the Company. Upon closing, Zimi will become a wholly-owned subsidiary of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Assets		
Non-current assets		
Property and equipment	355	35
Investment in subsidiaries	26,186,571	17,854,701
Other assets	73	78
	26,186,999	17,854,814
Current assets		
Prepayments and other receivables	37,520,429	21,319,432
Cash and cash equivalents	4,594	58,359
	37,525,023	21,377,791
Total assets	63,712,022	39,232,605
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	409	388
Reserves (Note 40(b))	62,660,813	39,223,583
Total equity	62,661,222	39,223,971
Liabilities		
Current liabilities		
Other payables and accruals	106,819	8,634
Borrowings	943,981	—
	1,050,800	8,634
Total liabilities	1,050,800	8,634
Total equity and liabilities	63,712,022	39,232,605

The balance sheet of the Company was approved by the Board of Directors on March 24, 2021 and was signed on its behalf:

Lei Jun　　　　　　　　Lin Bin

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 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, 2020	(1,052,822)	43,578,836	6,240,223	1,494,065	25,950	(11,072,061)	–	9,392	39,223,583
Purchase of own shares	(454,872)	–	–	–	–	–	–	–	(454,872)
Cancellation of shares	1,345,663	(1,349,709)	–	–	–	–	–	–	(4,046)
Release of ordinary shares from Share Scheme Trust	125,807	687,235	(783,805)	–	–	–	–	–	29,237
Employees share-based compensation scheme:									
– value of employee services (Note 28)	–	–	1,978,446	–	–	–	–	–	1,978,446
– exercise of share options and restricted stock units (Note 28)	–	1,511,225	(1,179,339)	–	–	–	–	–	331,886
Currency translation differences (Note (a))	–	–	–	(2,032,656)	–	–	–	–	(2,032,656)
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–	–	–	(43,501)	(43,501)
Share of other reserves of investments accounted for using the equity method	–	–	–	–	29,363	–	–	–	29,363
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	–	–	–	–	–	–	–	(4,773)	(4,773)
Issuance of convertible bonds (Note 33(e))	–	–	–	–	–	–	1,764,799	–	1,764,799
Issuance of shares upon placement (Note 25(a))	–	19,907,920	–	–	–	–	–	–	19,907,920
Share consideration for acquisition of an associate (Note 11(b))	–	320,384	–	–	320,384	–	–	–	640,768
Others	–	–	–	–	(13,188)	–	–	–	(13,188)
Profit for the year	–	–	–	–	–	1,307,847	–	–	1,307,847
At December 31, 2020	(36,224)	64,655,891	6,255,525	(538,591)	362,509	(9,764,214)	1,764,799	(38,882)	62,660,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 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	Others RMB'000	Total RMB'000
At January 1, 2019	–	43,851,282	5,436,038	985,481	25,950	(11,148,160)	9,392	39,159,983
Purchase of own shares	(2,932,111)	–	–	–	–	–	–	(2,932,111)
Cancellation of shares	1,879,289	(1,882,527)	–	–	–	–	–	(3,238)
Release of ordinary shares from Share Scheme Trust	–	167,447	(139,015)	–	–	–	–	28,432
Employees share-based compensation scheme:								
– value of employee services (Note 28)	–	–	2,127,967	–	–	–	–	2,127,967
– exercise of share options and restricted stock units (Note 28)	–	1,442,634	(1,184,767)	–	–	–	–	257,867
Currency translation differences (Note (a))	–	–	–	508,584	–	–	–	508,584
Profit for the year	–	–	–	–	–	76,099	–	76,099
At December 31, 2019	(1,052,822)	43,578,836	6,240,223	1,494,065	25,950	(11,072,061)	9,392	39,223,583

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, as amended from time to time
"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

DEFINITIONS

"Compliance Advisor"	Guotai Junan Capital Limited, being the compliance advisor of the Company
"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
"Latest Practicable Date"	April 13, 2021, 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

DEFINITIONS

"PRC"	the People's Republic of China
"PRC Legal Advisor"	JunHe LLP
"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, 2020
"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
"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"	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

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
"%"	per cent

MI