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XIAOMI CORPORATION

小米集团

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

(Stock Code: 1810)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Xiaomi Corporation 小米集团 (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2022 (the “**Reporting Period**”). The consolidated financial statements for the Reporting Period have been audited by PricewaterhouseCoopers, the independent auditor of the Company (the “**Auditor**”) in accordance with International Standards on Auditing. The results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

In this announcement, “we”, “us”, and “our” refer to the Company (as defined above) and where the context otherwise requires, the Group (as defined above).

KEY HIGHLIGHTS

	Unaudited		
	Three months ended		
	December 31,	December 31,	Year-over-
	2022	2021	year change
	(Renminbi (“RMB”) in millions, unless specified)		
Revenue	66,047.4	85,575.2	-22.8%
Gross profit	11,377.5	14,659.5	-22.4%
Operating profit	3,355.7	4,415.6	-24.0%
Profit before income tax	3,803.7	3,884.5	-2.1%
Profit for the period	3,141.7	2,442.5	28.6%
Non-IFRS Measure: Adjusted Net Profit	1,460.9	4,473.1	-67.3%

	Year ended December 31,		
	2022	2021	Year-over- year change
	(RMB in millions, unless specified)		
Revenue	280,044.0	328,309.1	-14.7%
Gross Profit	47,577.2	58,260.9	-18.3%
Operating Profit	2,816.5	26,028.6	-89.2%
Profit before income tax	3,934.0	24,417.0	-83.9%
Profit for the year	2,502.6	19,283.2	-87.0%
Non-IFRS Measure: Adjusted Net Profit	8,518.0	22,039.5	-61.4%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

2022 was full of challenges, the global economy and industry development was impacted by a variety of factors. According to the International Monetary Fund (“IMF”)¹, global economic growth is forecast to decline to 3.4% in 2022 from 6.2% in 2021. However, amid the challenging macro environment, each of our business segments remained resilient. In 2022, our total revenue amounted to RMB280.0 billion; our adjusted net profit was RMB8.5 billion, which included RMB3.1 billion in expenses related to our smart Electric Vehicle (“EV”) and other new initiatives. In the fourth quarter of 2022, our total revenue amounted to RMB66.0 billion; adjusted net profit was RMB1.5 billion, which included RMB1.2 billion in expenses related to our smart EV and other new initiatives, as well as a one-time charge of approximately RMB0.7 billion, resulting from an adjustment of the after-sales service policy for certain series of our smartphones to improve customers’ after-sales service experience in November 2022.

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

After three years of relentless execution of our smartphone premiumization strategy, we have achieved substantial progress. In July and August 2022, we unveiled our premium smartphone models *Xiaomi 12S Ultra* and *Xiaomi MIX Fold 2* in mainland China. Both models have successfully maintained their prices throughout their life cycles. Furthermore, we launched the *Xiaomi 13 Series*² of premium smartphones in mainland China in December 2022. According to third-party data, in the fourth quarter of 2022, our smartphone units sold in the RMB3,000–RMB4,000 price segment ranked No. 1 in mainland China, while our smartphone units sold in the RMB4,000–RMB5,000 price segment ranked No.2 in mainland China. To date, three consecutive premium products³ have earned a strongly positive reputation among users.

¹ IMF’s World Economic Outlook Update, published in January 2023.

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

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

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

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

2. Smartphones

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

In the fourth quarter of 2022, our smartphone revenue reached RMB36.7 billion and our global smartphone shipments reached 32.7 million units. As we effectively advanced our premiumization strategy, in the fourth quarter, the contribution from our premium smartphones⁴ as a percentage of total smartphone shipments in mainland China increased by 6.8% year-over-year, and our smartphone ASP in mainland China grew by over 14% year-over-year.

We continued to advance our dual-brand strategy. Under the Xiaomi brand, we launched the blockbuster *Xiaomi 13 Series* of premium smartphones in mainland China in December 2022, with in-depth research and development collaboration with Leica. While the *Xiaomi 13 series* is equipped with three Leica professional optical lenses, the *Xiaomi 13 Pro* features a main camera with an ultra-large 1-inch sensor, a Leica 75mm floating telephoto camera and a Leica ultra-wide camera, bringing users a supremely textured imaging experience. The *Xiaomi 13 Series* is also equipped with the Snapdragon 8 Gen 2 flagship chipset based on TSMC’s 4nm manufacturing process and the newly upgraded MIUI 14 system. This synergistic hardware and software

⁴ Premium smartphones are smartphones with retail prices at or above RMB3,000.

combination has led to vastly improved efficiency. In addition, the *Xiaomi 13* is available, for the first time, in five limited edition custom colors, presenting distinctive experience to users with our enriched design philosophy. According to third-party data, we achieved the No. 1 smartphone market share among Android vendors in the RMB4,000–RMB6,000 price segment for seven consecutive weeks in mainland China since the week after the launch of the *Xiaomi 13 Series*. Moreover, the *Xiaomi 13 series* also received over 99% positive ratings on JD.com.⁵

Under the Redmi brand, we continued to provide highly competitive products to the mass market. In December 2022, we launched the first Redmi model with wireless charging technology, the *Redmi K60 Series*⁶. The *Redmi K60* is powered by the Snapdragon 8+ Gen 1 processor and 5,500mAh battery, with a 2K AMOLED screen. The *Redmi K60 Pro* is equipped with the Snapdragon 8 Gen 2 processor and a Sony IMX800 camera, as well as supports 120W wired fast charging and 30W wireless fast charging. The exceptional performance and remarkable user experience of the *Redmi K60 Series* drove widespread user recognition immediately after its launch, with sales exceeding 300,000 units in the first five minutes after its market debut.

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

3. IoT and lifestyle products

In 2022, revenue from our IoT and lifestyle products amounted to RMB79.8 billion, a decrease of 6.1% year-over-year. In the fourth quarter of 2022, revenue from our IoT and lifestyle products was RMB21.4 billion, an increase of 12.5% quarter-over-quarter.

Our Smart TV business remained solid as we held steadfast to advancing our brand premiumization strategy. Despite a 5.6% decline in global smart TV shipments,⁷ our global smart TV shipments grew to 12.4 million units, an increase of 0.6% year-over-year, once again outperforming the market. According to All View Cloud ("AVC"), our TV shipments maintain a top 5 ranking globally. Upholding our objective of developing high-quality large-screen TVs, we introduced the *Xiaomi TV EA Pro 86-inch* in December 2022, which features a full-screen display, 4K ultra-HD resolution and MEMC⁸ technology, achieving new breakthroughs in imaging experience.

In 2022, as we continued to enrich our portfolio of smart large home appliances,⁹ we made significant strides in user recognition and our revenue from smart large home appliances grew

⁵ As of January 12, 2023, based on ratings from JD.com's Xiaomi self-operated flagship store.

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

⁷ Data from All View Cloud.

⁸ Motion Estimation and Motion Compensation.

⁹ Including air conditioners, refrigerators and washing machines.

over 40% year-over-year. Our air conditioner shipments grew by over 50% year-over-year in 2022, outperforming the market with our online market share by value of sales up by 1.3%.¹⁰ Meanwhile, in our ongoing effort to develop proprietary technologies, we made meaningful progress in innovation. In 2022, our Mijia air conditioners received a total of nine industry technology awards, three Red Dot Awards from Germany and one International Design Excellence Award (“**IDEA**”) from the U.S. Furthermore, our refrigerator shipments grew by approximately 100% year-over-year in 2022. As for washing machines, we are dedicated to meeting users’ diverse needs in different scenarios to enhance user experience. In the fourth quarter of 2022, our washing machine shipments reached 340,000 units, a quarter-over-quarter increase of over 39%.

Our tablet and laptop products also received more user recognition. In the fourth quarter of 2022, our tablet shipments reached a new quarterly high in mainland China, with full-year shipments increasing by over 160% year-over-year. According to Canalys, our tablet market share ranking in mainland China rose to No. 3 in 2022. In February 2023, we launched the *Xiaomi Book 12.4 2-in-1* laptop, which received the Red Dot Award for product design in 2022, owing to its comprehensive functionality, simple appearance and smart pen feature.

In December 2022, we unveiled the *Xiaomi Watch S2* smart watch and *Xiaomi Buds 4* noise cancellation earbuds; moreover, we combined smartphones and new wearable products for sale in the form of the *Xiaomi 13 Pro Supreme Set*, which has been popular with users. According to Canalys, our shipments of wearable bands¹¹ and TWS earbuds in 2022 both ranked No. 2 in mainland China.

4. Internet services

In 2022, revenue from internet services reached RMB28.3 billion, an increase of 0.4% year-over-year. In the fourth quarter of 2022, revenue from internet services was RMB7.2 billion, an increase of 1.5% quarter-over-quarter.

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

In 2022, our overseas internet services maintained robust growth. Full-year revenue from overseas internet services increased 35.2% year-over-year to RMB6.8 billion. In the fourth quarter of 2022, our revenue from overseas internet services reached another record high, increasing by 19.4% year-over-year to RMB1.9 billion, accounting for a rising share of 26.1% of our total internet services revenue.

¹⁰ Data from All View Cloud.

¹¹ Including basic bands, basic watches and smart watches.

In 2022, despite the challenges in the advertising industry, our advertising business achieved steady growth. Our advertising revenue reached RMB18.5 billion, up 2.1% year-over-year. In the fourth quarter of 2022, our advertising revenue was RMB4.7 billion. In addition, fourth quarter revenue from both overseas pre-installation and performance-based and brand advertising registered new quarterly highs, driven by a diversified advertiser base and improved monetization efficiency.

According to “2022 China’s Mobile Game Industry Report”, a soft market environment drove down sales revenue in China’s mobile gaming market by 14.4% year-over-year in 2022. Despite this decline, our gaming business outperformed the market in 2022 supported by the steady advancement of our smartphone premiumization strategy and continual improvements in operating efficiency. Our gaming revenue reached RMB4.1 billion in 2022, up 4.4% year-over-year. In the fourth quarter of 2022, our gaming revenue reached RMB1.0 billion, up 8.7% year-over-year, marking our sixth consecutive quarter of year-over-year improvements.

Regarding our TV internet business, we are committed to meeting the diversified smart entertainment needs of a wide variety of families. In 2022, revenue from TV VAS¹² in mainland China increased over 25% year-over-year. In December 2022, global MAU of our smart TV¹³ exceeded 58 million. Notably, the number of our TV internet paid subscribers grew by 23.0% to 6.0 million.

5. Strategy updates

Dual emphasis on scale and profitability

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

Corporate governance enhancements

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

¹² TV VAS primarily includes subscription services.

¹³ Including *Xiaomi Box* and *Xiaomi TV Stick*.

Smart electric vehicles

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

Smartphone × AIoT

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

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

New Retail

In 2022, we worked to improve the operating efficiency of our offline channel business. Despite the impact of COVID-19 resurgences, which led to a reduction in Mi Home’s full-year traffic, the gross merchandise value (“GMV”) of our offline channels continued to grow. As of December 31, 2022, the number of our offline retail stores remained above 10,000 in mainland China. We consistently optimized display layouts, upgraded our product mix and offered cross-selling promotions at offline stores in 2022. These efforts increased our offline stores’ GMV of AIoT products by over 27% year-over-year. Offline distribution is also a critical channel for our premiumization strategy. As offline channels gradually recovered in the post-pandemic era, we upgraded our sales strategy to raise our offline profile. During January and February 2023, the average single-store GMV per month¹⁵ increased by over 30% compare to the fourth quarter of 2022. As of February 28, 2023, offline channels contributed 55% of total cumulative sales volume of the *Xiaomi 13 Series*.

¹⁴ All data are from Xiaomi Labs, using the same platform and similar equipment. The data may fluctuate within a small range during multiple tests.

¹⁵ Average single-store GMV per month is calculated as the total GMV generated from offline retail stores during the period divided by the average of the number of offline retail stores at the beginning and the end of the period, then divided by the number of months during that period.

Corporate Social Responsibility (CSR)

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

Revenue

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

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

Smartphones

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

IoT and lifestyle products

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

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

Revenue from our smart large home appliance category, which comprises smart air conditioners, refrigerators and washing machines, continued to deliver strong growth with revenue increasing over 40% year over-year. Revenue from our tablets reached strong growth momentum with full-year shipments increasing over 160% year-over-year in mainland China.

Internet services

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

Others

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

Cost of Sales

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

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

Smartphones

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

IoT and lifestyle products

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

Internet services

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

Others

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

Gross Profit and Margin

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

The gross profit margin from our smartphones segment decreased from 11.9% for the year ended December 31, 2021 to 9.0% for the Reporting Period, primarily due to enhanced efforts to clear our inventories, as well as US dollar appreciation in 2022 and an increase in inventory impairment provision. In addition, we updated the after-sales service policy for certain series of our smartphones in order to improve consumers' after-sales service experience in November 2022, which resulted in an additional one-time cost of approximately RMB0.7 billion in the fourth quarter of 2022. Excluding this one-time impact, the gross profit margin from our smartphones segment for the Reporting Period would be 9.4%.

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

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

Research and Development Expenses

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

Selling and Marketing Expenses

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

Administrative Expenses

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

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

Our fair value changes on investments measured at fair value through profit or loss changed from a gain of RMB8.1 billion for the year ended December 31, 2021 to a loss of RMB1.7 billion for the Reporting Period, primarily due to the fair value loss of listed equity investments.

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

Our share of net (losses)/profits of investments accounted for using the equity method changed from net profits of RMB275.0 million for the year ended December 31, 2021 to net losses of RMB400.1 million for the Reporting Period, primarily due to the dilution gains from our certain investees in 2021, such as the dilution gain from Kingsoft Cloud.

Other Income

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

Other Losses, Net

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

Finance Income/(Costs), Net

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

Income Tax Expenses

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

Profit for the Year

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

Adjusted Net Profit

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

Fourth Quarter of 2022 Compared to Fourth Quarter of 2021

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

	Unaudited	
	Three months ended	
	December 31,	December 31,
	2022	2021
	(RMB in millions)	
Revenue	66,047.4	85,575.2
Cost of sales	(54,669.9)	(70,915.7)
Gross profit	11,377.5	14,659.5
Research and development expenses	(4,700.4)	(3,853.2)
Selling and marketing expenses	(5,852.4)	(6,254.3)
Administrative expenses	(1,298.5)	(1,326.3)
Fair value changes on investments measured at fair value through profit or loss	3,765.5	3,879.1
Share of net profits of investments accounted for using the equity method	3.6	247.1
Other income	588.7	205.3
Other losses, net	(528.3)	(3,141.6)
Operating profit	3,355.7	4,415.6
Finance income/(costs), net	448.0	(531.1)
Profit before income tax	3,803.7	3,884.5
Income tax expenses	(662.0)	(1,442.0)
Profit for the period	3,141.7	2,442.5
Non-IFRS Measure: Adjusted net profit	1,460.9	4,473.1

Revenue

Revenue decreased by 22.8% to RMB66.0 billion in the fourth quarter of 2022 from RMB85.6 billion in the fourth quarter of 2021. The following table sets forth our revenue by line of business in the fourth quarter of 2022 and the fourth quarter of 2021:

	Unaudited			
	Three months ended		December 31, 2021	
	December 31, 2022		December 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	36,672.1	55.5%	50,464.1	59.0%
IoT and lifestyle products	21,447.3	32.5%	25,066.6	29.3%
Internet services	7,171.3	10.9%	7,269.5	8.5%
Others	756.7	1.1%	2,775.0	3.2%
Total revenue	<u>66,047.4</u>	<u>100.0%</u>	<u>85,575.2</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 27.3% from RMB50.5 billion in the fourth quarter of 2021 to RMB36.7 billion for the fourth quarter of 2022, primarily due to the decrease in both our smartphone shipments and ASP. Our smartphone shipments decreased by 25.9% from 44.1 million in the fourth quarter of 2021 to 32.7 million in the fourth quarter of 2022, primarily due to the weakened demand of the overall smartphone market affected by the resurgence of COVID-19 in mainland China and global macroeconomic headwinds, as well as enhanced efforts to clear our inventories in the overseas market. The ASP of our smartphones decreased by 2.0% from RMB1,143.6 per unit in the fourth quarter of 2021 to RMB1,121.0 per unit in the fourth quarter of 2022. The decrease in ASP was primarily due to the enhanced efforts to clear our inventories in the overseas market, partially offset by the shift in product launch schedules of premium smartphones in mainland China in the fourth quarter of 2022.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment decreased by 14.4% from RMB25.1 billion in the fourth quarter of 2021 to RMB21.4 billion in the fourth quarter of 2022, primarily due to the weakened demand of smart TVs and certain lifestyle products, partially offset by the increased revenue from tablets and smart large home appliance category.

Revenue from smart TVs and laptops decreased by 24.9% from RMB8.7 billion in the fourth quarter of 2021 to RMB6.5 billion in the fourth quarter of 2022, mainly due to the decrease in both shipments and ASP of smart TVs, partially offset by the increased shipments of laptops.

Revenue from our smart large home appliance category, which comprises smart air conditioners, refrigerators and washing machines, continued to deliver strong growth with revenue increasing 39.9% year over-year. Our tablets maintained strong growth momentum with revenue growing 39.1% year-over-year, primarily due to the increase in shipments which reached a new quarterly high in mainland China.

Internet services

Revenue from our internet services segment decreased by 1.4% from RMB7.3 billion in the fourth quarter of 2021 to RMB7.2 billion in the fourth quarter of 2022, primarily due to the decrease in revenue from our advertising business and fintech business, partially offset by the increase in revenue from TV value-added services and gaming business. Our MIUI MAU increased by 14.4% from 508.9 million in December 2021 to 582.1 million in December 2022.

Others

Other revenue decreased by 72.7% from RMB2.8 billion in the fourth quarter of 2021 to RMB0.8 billion in the fourth quarter of 2022, primarily due to the decrease in revenue from the sales of buildings.

Cost of Sales

Our cost of sales decreased by 22.9% from RMB70.9 billion in the fourth quarter of 2021 to RMB54.7 billion in the fourth quarter of 2022. The following table sets forth our cost of sales by line of business in the fourth quarter of 2022 and the fourth quarter of 2021:

	Unaudited			
	Three months ended			
	December 31, 2022		December 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	33,672.2	51.0%	45,346.1	53.0%
IoT and lifestyle products	18,389.0	27.8%	21,795.9	25.5%
Internet services	2,040.3	3.1%	1,740.2	2.0%
Others	568.4	0.9%	2,033.5	2.4%
	<u>54,669.9</u>	<u>82.8%</u>	<u>70,915.7</u>	<u>82.9%</u>
Total cost of sales	<u>54,669.9</u>	<u>82.8%</u>	<u>70,915.7</u>	<u>82.9%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 25.7% from RMB45.3 billion in the fourth quarter of 2021 to RMB33.7 billion in the fourth quarter of 2022, primarily due to the decreased sales of our smartphones, partially offset by the increased inventory impairment provisions.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment decreased by 15.6% from RMB21.8 billion in the fourth quarter of 2021 to RMB18.4 billion in the fourth quarter of 2022, primarily due to the decreased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment increased by 17.2% from RMB1.7 billion in the fourth quarter of 2021 to RMB2.0 billion in the fourth quarter of 2022, primarily due to the increased cost of our advertising business.

Others

Cost of sales related to our others segment decreased by 72.1% from RMB2.0 billion in the fourth quarter of 2021 to RMB0.6 billion in the fourth quarter of 2022, primarily due to the decreased sales of buildings.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 22.4% from RMB14.7 billion in the fourth quarter of 2021 to RMB11.4 billion in the fourth quarter of 2022. Our gross profit margin increased from 17.1% in the fourth quarter of 2021 to 17.2% in the fourth quarter of 2022.

The gross profit margin from our smartphones segment decreased from 10.1% in the fourth quarter of 2021 to 8.2% in the fourth quarter of 2022, mainly due to the updated after-sales service policy for certain series of our smartphones in order to improve consumers' after-sales service experience in November 2022, which resulted in an additional one-time cost of approximately RMB0.7 billion in the fourth quarter of 2022. Excluding this one-time impact, the gross profit margin from our smartphones segment in the fourth quarter of 2022 would be 10.1%.

The gross profit margin from our IoT and lifestyle products segment increased from 13.0% in the fourth quarter of 2021 to 14.3% in the fourth quarter of 2022, mainly due to the improvement in gross profit margin of smart large home appliances, as well as that of smart TVs due to the decreased price of key components.

The gross profit margin from our internet services segment decreased from 76.1% in the fourth quarter of 2021 to 71.5% in the fourth quarter of 2022, mainly due to the decline of gross profit margin from our advertising business and fintech business.

Research and Development Expenses

Our research and development expenses increased by 22.0% from RMB3.9 billion in the fourth quarter of 2021 to RMB4.7 billion in the fourth quarter of 2022, primarily due to the increased expenses in smart EV and other new initiatives.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 6.4% from RMB6.3 billion in the fourth quarter of 2021 to RMB5.9 billion in the fourth quarter of 2022, primarily due to the decrease in logistics expenses.

Administrative Expenses

Our administrative expenses remained stable at RMB1.3 billion in the fourth quarter of 2022 compared to the fourth quarter of 2021, primarily due to the decrease in compensation for administrative personnel, partially offset by the increase in credit loss allowance for receivables.

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

Our fair value changes on investments measured at fair value through profit or loss decreased by 2.9% from a gain of RMB3.9 billion in the fourth quarter of 2021 to a gain of RMB3.8 billion in the fourth quarter of 2022.

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

Our share of net profits of investments accounted for using the equity method changed from net profits of RMB247.1 million in the fourth quarter of 2021 to net profits of RMB3.6 million in the fourth quarter of 2022, primarily due to the dilution gains from our certain investees in the fourth quarter of 2021, such as the dilution gain from Kingsoft Cloud.

Other Income

Our other income increased by 186.8% from RMB205.3 million in the fourth quarter of 2021 to RMB588.7 million in the fourth quarter of 2022, primarily due to the increase of government grants.

Other Losses, Net

Our other losses decreased by 83.2% from net losses of RMB3.1 billion in the fourth quarter of 2021 to net losses of RMB0.5 billion in the fourth quarter of 2022. This is mainly due to less impairment of listed investments accounted for using the equity method in the fourth quarter of 2022.

Finance Income/(Costs), Net

Our net finance income/(costs) changed from a net cost of RMB531.1 million in the fourth quarter of 2021 to a net income of RMB448.0 million in the fourth quarter of 2022, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses decreased by 54.1% from RMB1.4 billion in the fourth quarter of 2021 to RMB0.7 billion in the fourth quarter of 2022, primarily due to the decrease of taxable income in the fourth quarter of 2022.

Profit for the Period

As a result of the foregoing, we had a profit of RMB3.1 billion in the fourth quarter of 2022, compared with a profit of RMB2.4 billion in the fourth quarter of 2021.

Adjusted Net Profit

Our adjusted net profit was RMB1.5 billion and RMB4.5 billion for the fourth quarter of 2022 and fourth quarter of 2021, respectively.

Fourth Quarter of 2022 Compared to Third Quarter of 2022

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

	Unaudited	
	Three months ended	
	December 31,	September 30,
	2022	2022
	(RMB in millions)	
Revenue	66,047.4	70,474.3
Cost of sales	(54,669.9)	(58,752.4)
Gross profit	11,377.5	11,721.9
Research and development expenses	(4,700.4)	(4,069.8)
Selling and marketing expenses	(5,852.4)	(4,882.6)
Administrative expenses	(1,298.5)	(1,255.4)
Fair value changes on investments measured at fair value through profit or loss	3,765.5	(2,390.9)
Share of net profits/(losses) of investments accounted for using the equity method	3.6	(265.0)
Other income	588.7	195.7
Other losses, net	(528.3)	(415.0)
Operating profit/(loss)	3,355.7	(1,361.1)
Finance income, net	448.0	170.3
Profit/(Loss) before income tax	3,803.7	(1,190.8)
Income tax expenses	(662.0)	(283.2)
Profit/(Loss) for the period	3,141.7	(1,474.0)
Non-IFRS Measure: Adjusted net profit	1,460.9	2,117.3

Revenue

Revenue decreased by 6.3% to RMB66.0 billion in the fourth quarter of 2022 from RMB70.5 billion in the third quarter of 2022. The following table sets forth our revenue by line of business in the fourth quarter of 2022 and the third quarter of 2022:

	Unaudited			
	December 31, 2022		September 30, 2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	36,672.1	55.5%	42,514.2	60.3%
IoT and lifestyle products	21,447.3	32.5%	19,058.6	27.0%
Internet services	7,171.3	10.9%	7,066.6	10.0%
Others	756.7	1.1%	1,834.9	2.7%
Total revenue	<u>66,047.4</u>	<u>100.0%</u>	<u>70,474.3</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 13.7% from RMB42.5 billion in the third quarter of 2022 to RMB36.7 billion in the fourth quarter of 2022, primarily due to the decrease in smartphone shipments, partially offset by the increase in our smartphone ASP. Our smartphone shipments decreased by 18.6% from 40.2 million in the third quarter of 2022 to 32.7 million in the fourth quarter of 2022, mainly due to the weakened demand of the overall smartphone market affected by global macroeconomic headwinds and geopolitical disruptions. The ASP of our smartphones increased by 5.9% from RMB1,058.2 per unit in the third quarter of 2022 to RMB1,121.0 per unit in the fourth quarter of 2022.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 12.5% from RMB19.1 billion in the third quarter of 2022 to RMB21.4 billion in the fourth quarter of 2022, primarily due to the increase in revenue from certain lifestyle products, such as robot vacuum cleaners and water purifiers, as well as the smart TVs and tablets, partially offset by the decreased revenue of our smart large home appliance category.

Revenue from smart TVs and laptops increased by 12.5% from RMB5.8 billion in the third quarter of 2022 to RMB6.5 billion in the fourth quarter of 2022, mainly due to the increase in both our smart TV shipments and ASP. Our tablets maintained strong growth momentum with revenue growing over 50% quarter-over-quarter, primarily due to the increase in shipments which reached a new quarterly high in mainland China.

Internet services

Revenue from our internet services segment increased by 1.5% from RMB7.1 billion in the third quarter of 2022 to RMB7.2 billion in the fourth quarter of 2022, mainly due to the increase in revenue of our advertising business.

Others

Other revenue decreased by 58.8% from RMB1.8 billion in the third quarter of 2022 to RMB0.8 billion in the fourth quarter of 2022, primarily due to the decrease in revenue from the sales of buildings.

Cost of Sales

Our cost of sales decreased by 6.9% from RMB58.8 billion in the third quarter of 2022 to RMB54.7 billion in the fourth quarter of 2022.

	Unaudited			
	Three months ended			
	December 31, 2022		September 30, 2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	33,672.2	51.0%	38,730.4	55.0%
IoT and lifestyle products	18,389.0	27.8%	16,488.4	23.4%
Internet services	2,040.3	3.1%	1,974.7	2.8%
Others	568.4	0.9%	1,558.9	2.2%
Total cost of sales	<u>54,669.9</u>	<u>82.8%</u>	<u>58,752.4</u>	<u>83.4%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 13.1% from RMB38.7 billion in the third quarter of 2022 to RMB33.7 billion in the fourth quarter of 2022, 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 11.5% from RMB16.5 billion in the third quarter of 2022 to RMB18.4 billion in the fourth quarter of 2022, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment remained stable at RMB2.0 billion in the fourth quarter of 2022 compared to the third quarter of 2022, primarily due to the increase in cost from our advertising business and fintech business, partially offset by the decrease in cost from our other value-added services.

Others

Cost of sales related to our others segment decreased by 63.5% from RMB1.6 billion in the third quarter of 2022 to RMB0.6 billion in the fourth quarter of 2022, mainly due to the decreased sales of buildings.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 2.9% from RMB11.7 billion in the third quarter of 2022 to RMB11.4 billion in the fourth quarter of 2022. Our gross profit margin increased from 16.6% in the third quarter of 2022 to 17.2% in the fourth quarter of 2022.

The gross profit margin from our smartphones segment decreased from 8.9% in the third quarter of 2022 to 8.2% in the fourth quarter of 2022, primarily due to the enhanced promotional efforts in major shopping festivals particularly in mainland China in the fourth quarter of 2022, partially offset by the increased gross profit margin in the overseas market. In addition, we updated the after-sales service policy for our certain series of smartphones in order to improve consumers' after-sales service experience in November 2022, which resulted in an additional one-time cost of approximately RMB0.7 billion in the fourth quarter of 2022. Excluding this one-time impact, the gross profit margin from our smartphones segment would be 10.1%.

The gross profit margin from our IoT and lifestyle products segment increased from 13.5% in the third quarter of 2022 to 14.3% in the fourth quarter of 2022, mainly attributable to the increased gross profit margin of smart large home appliances, as well as that of smart TVs and tablets.

The gross profit margin from our internet services segment decreased from 72.1% in the third quarter of 2022 to 71.5% in the fourth quarter of 2022, mainly due to the decline of gross profit margin from our advertising business and fintech business.

Research and Development Expenses

Our research and development expenses increased by 15.5% from RMB4.1 billion in the third quarter of 2022 to RMB4.7 billion in the fourth quarter of 2022, primarily due to the higher expenses relating to the development of smart EV and other new initiatives.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 19.9% from RMB4.9 billion in the third quarter of 2022 to RMB5.9 billion in the fourth quarter of 2022, primarily due to the increase in promotion and advertising expenses. Promotion and advertising expenses increased by 63.3% from RMB1.4 billion in the third quarter of 2022 to RMB2.3 billion in the fourth quarter of 2022, primarily due to promotional events of our products and brand marketing in the fourth quarter of 2022.

Administrative Expenses

Our administrative expenses remained stable at RMB1.3 billion in the fourth quarter of 2022 compared to the third quarter of 2022.

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

Our fair value changes on investments measured at fair value through profit or loss changed from a loss of RMB2.4 billion in the third quarter of 2022 to a gain of RMB3.8 billion in the fourth quarter of 2022, primarily due to the fair value gains of preferred shares investments in the fourth quarter of 2022.

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

Our share of net profits/(losses) of investments accounted for using the equity method changed from net losses of RMB265.0 million in the third quarter of 2022 to net profits of RMB3.6 million in the fourth quarter of 2022, primarily due to share of profits from our certain investees in the fourth quarter of 2022.

Other Income

Our other income increased by 200.9% from RMB195.7 million in the third quarter of 2022 to RMB588.7 million in the fourth quarter of 2022, primarily due to the increase of government grants.

Other Losses, Net

Our other net losses increased by 27.3% from RMB415.0 million in the third quarter of 2022 to RMB528.3 million in the fourth quarter of 2022, primarily due to the deemed disposal loss of investments accounted for using the equity method in the fourth quarter of 2022.

Finance Income, Net

Our net finance income increased by 163.0% from an income of RMB170.3 million in the third quarter of 2022 to RMB448.0 million in the fourth quarter of 2022, primarily due to the change of value of financial liabilities to fund investors in the fourth quarter of 2022.

Income Tax Expenses

Our income tax expenses increased by 133.8% from RMB283.2 million in the third quarter of 2022 to RMB662.0 million in the fourth quarter of 2022, primarily due to the increase of operating profits in the fourth quarter of 2022.

Profit/(Loss) for the Period

As a result of the foregoing, we had a profit of RMB3.1 billion in the fourth quarter of 2022, compared with a loss of RMB1.5 billion in the third quarter of 2022.

Adjusted Net Profit

Our adjusted net profit was RMB1.5 billion and RMB2.1 billion for the fourth quarter of 2022 and third quarter of 2022, 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 2022, the third quarter of 2022, the fourth quarter of 2021 and the years ended December 31, 2022 and 2021 to the nearest measures prepared in accordance with IFRS.

Unaudited
Three Months Ended December 31, 2022

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
			(RMB in thousand, unless specified)				
Profit for the period	3,141,667	589,109	(2,166,410)	36,028	(155,061)	15,569	1,460,902
Net margin	4.8%						2.2%

Unaudited
Three Months Ended September 30, 2022

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
			(RMB in thousand, unless specified)				
(Loss)/profit for the period	(1,473,922)	624,754	3,088,405	36,081	(47,110)	(110,957)	2,117,251
Net margin	-2.1%						3.0%

Unaudited
Three Months Ended December 31, 2021

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
			(RMB in thousand, unless specified)				
Profit for the period	2,442,503	448,595	165,520	36,081	613,733	766,683	4,473,115
Net margin	2.9%						5.2%

Year Ended December 31, 2022

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

Year Ended December 31, 2021

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

Notes:

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

Liquidity, Financial Resources and Gearing

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

Other than the funds raised through our Global Offering 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 RMB27.6 billion and RMB28.1 billion as of December 31, 2022 and September 30, 2022, respectively.

Note:

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

Issuance of Debt Securities

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

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

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

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

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	December 31, 2022	September 30, 2022
	(RMB in millions)	
Net cash generated from/(used in) operating activities ⁽¹⁾	4,112.2	(1,470.5)
Net cash (used in)/generated from investing activities	(708.1)	8,629.6
Net cash used in financing activities ⁽¹⁾	(3,617.0)	(7,871.6)
Net decrease in cash and cash equivalents	(212.9)	(712.5)
Cash and cash equivalents at beginning of period	28,071.1	28,183.1
Effects of exchange rate changes on cash and cash equivalents	(250.9)	600.5
	<u>27,607.3</u>	<u>28,071.1</u>
Cash and cash equivalents at end of period	<u>27,607.3</u>	<u>28,071.1</u>

Note:

- (1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments resulting from the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar Bank, the net cash generated from operating activities was RMB5.1 billion in the fourth quarter of 2022 and the net cash used in operating activities was RMB4.2 billion in the third quarter of 2022, respectively. Excluding the change of borrowings for the fintech business, the net cash used in financing activities was RMB3.0 billion in the fourth quarter of 2022 and the net cash used in financing activities was RMB4.5 billion in the third quarter of 2022, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Generated From Operating Activities

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

In the fourth quarter of 2022, net cash generated from our operating activities amounted to RMB4.1 billion, representing cash generated from operations of RMB5.0 billion minus income tax paid of RMB0.9 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB3.8 billion, adjusted by a decrease in trade receivables of RMB2.5 billion, a decrease in prepayments and other receivables of RMB2.2 billion, an increase in other payables and accruals of RMB1.2 billion and an increase in advance from customers of RMB0.9 billion, partially offset by a decrease in trade payables of RMB5.5 billion.

Net Cash Used In Investing Activities

For the fourth quarter of 2022, our net cash used in investing activities was RMB0.7 billion, which was primarily attributed to the net changes of long-term bank deposits of RMB2.7 billion, partially offset by the net changes of short-term investments measured at fair value through profit or loss of RMB1.8 billion and the net changes of short-term bank deposits of RMB0.3 billion.

Net Cash Used In Financing Activities

For the fourth quarter of 2022, our net cash used in financing activities was RMB3.6 billion, which was primarily attributed to the net changes of borrowings and payables under letter of credit of RMB1.5 billion and RMB1.0 billion, respectively, as well as the payments for shares repurchase of RMB0.4 billion.

Borrowings

As of September 30, 2022 and December 31, 2022, we had total borrowings of RMB25.8 billion and RMB23.6 billion, respectively.

Capital Expenditure

	Three months ended	
	December 31, 2022	September 30, 2022
	(RMB in millions)	
Capital expenditures	1,379.4	1,702.9
Placement of long-term investments ⁽¹⁾	<u>689.2</u>	<u>928.5</u>
Total	<u><u>2,068.6</u></u>	<u><u>2,631.4</u></u>

Note:

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

Off-Balance Sheet Commitments and Arrangements

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

Future Plans for Material Investments and Capital Assets

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

Investments Held

As of December 31, 2022, we had invested in more than 420 companies and other long-term investments with an aggregate book value of RMB63.9 billion, an increase of 5.9% year-over-year. In 2022 and the fourth quarter of 2022, we recorded a net gain on disposal of investments (after tax) of RMB1.2 billion and RMB0.6 billion respectively. The total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on December 31, 2022; (ii) book value of our stakes in unlisted investee companies accounted for using the equity method; and (iii) book value of long-term investments measured at fair value through profit or loss) reached RMB65.2 billion as of December 31, 2022.

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

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

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

Employee and Remuneration Policy

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

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

Foreign Exchange Risk

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

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

Pledge of Assets

As of December 31, 2022, we pledged a restricted deposit of RMB4.0 billion, compared with RMB4.0 billion as of September 30, 2022. We also had pledged certain buildings, construction in progress and land use right for borrowings.

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2022 and September 30, 2022. Further details of the contingencies are set out in Note 12 to the financial information.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2022

(Expressed in Renminbi (“RMB”))

	Note	Year ended December 31,	
		2022	2021
		RMB'000	RMB'000
Revenue	2	280,044,016	328,309,145
Cost of sales	2, 3	(232,466,826)	(270,048,204)
Gross profit		47,577,190	58,260,941
Research and development expenses	3	(16,028,132)	(13,167,088)
Selling and marketing expenses	3	(21,323,323)	(20,980,765)
Administrative expenses	3	(5,113,877)	(4,738,919)
Fair value changes on investments measured at fair value through profit or loss	6	(1,662,010)	8,132,133
Share of net (losses)/profits of investments accounted for using the equity method		(400,100)	275,013
Other income		1,135,560	826,856
Other losses, net		(1,368,810)	(2,579,507)
Operating profit		2,816,498	26,028,664
Finance income		1,663,941	1,229,826
Finance costs		(546,483)	(2,841,457)
Profit before income tax		3,933,956	24,417,033
Income tax expenses	4	(1,431,388)	(5,133,798)
Profit for the year		2,502,568	19,283,235
Attributable to:			
— Owners of the Company		2,474,030	19,339,321
— Non-controlling interests		28,538	(56,086)
		2,502,568	19,283,235
Earnings per share (expressed in RMB per share):	5		
Basic		0.10	0.78
Diluted		0.10	0.76

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2022

(Expressed in RMB)

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Profit for the year	2,502,568	19,283,235
Other comprehensive income/(loss):		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Share of other comprehensive income/(loss) of investments accounted for using the equity method	57,211	(60,568)
Transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of investments accounted for using equity method	93,311	—
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	(22,754)	(2,649)
Currency translation differences	(103,529)	(313,151)
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Currency translation differences	3,721,116	(1,027,846)
Other comprehensive income/(loss) for the year, net of tax	3,745,355	(1,404,214)
Total comprehensive income for the year	6,247,923	17,879,021
Attributable to:		
— Owners of the Company	6,201,669	17,940,990
— Non-controlling interests	46,254	(61,969)
	6,247,923	17,879,021

CONSOLIDATED BALANCE SHEET

As of December 31, 2022

(Expressed in RMB)

	Note	As of December 31,	
		2022	2021
		RMB'000	RMB'000
Assets			
Non-current assets			
Property and equipment		9,138,221	6,964,621
Intangible assets		4,629,676	5,579,159
Investments accounted for using the equity method		7,932,192	10,230,751
Long-term investments measured at fair value through profit or loss	6	55,979,974	50,113,702
Deferred income tax assets		2,278,175	1,661,947
Long-term bank deposits		16,788,346	16,195,419
Long-term investments measured at amortized cost	6	405,371	351,362
Other non-current assets		15,940,461	15,943,508
		<u>113,092,416</u>	<u>107,040,469</u>
Current assets			
Inventories	8	50,437,891	52,397,946
Trade receivables	7	11,795,074	17,985,503
Loan receivables		7,829,563	5,109,034
Prepayments and other receivables		18,578,491	19,851,884
Bills receivables measured at fair value through other comprehensive income		40,003	14,033
Short-term investments measured at fair value through other comprehensive income	6	449,109	710,865
Short-term investments measured at amortized cost	6	—	1,597,919
Short-term investments measured at fair value through profit or loss	6	9,845,910	29,311,848
Short-term bank deposits		29,874,707	31,041,129
Restricted cash		3,956,786	4,319,661
Cash and cash equivalents		27,607,261	23,511,579
		<u>160,414,795</u>	<u>185,851,401</u>
Total assets		<u><u>273,507,211</u></u>	<u><u>292,891,870</u></u>

	Note	As of December 31,	
		2022	2021
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		406	407
Reserves		<u>143,658,052</u>	<u>137,212,499</u>
		<u>143,658,458</u>	<u>137,212,906</u>
Non-controlling interests		<u>264,602</u>	<u>219,590</u>
Total equity		<u><u>143,923,060</u></u>	<u><u>137,432,496</u></u>
Liabilities			
Non-current liabilities			
Borrowings	9	21,493,261	20,719,790
Deferred income tax liabilities		983,256	1,202,717
Warranty provision		945,270	895,747
Other non-current liabilities		<u>16,534,831</u>	<u>16,913,649</u>
		<u>39,956,618</u>	<u>39,731,903</u>
Current liabilities			
Trade payables	10	53,093,543	74,643,005
Other payables and accruals		18,440,716	20,224,499
Advance from customers		9,587,959	9,289,177
Borrowings	9	2,150,741	5,527,050
Income tax liabilities		1,384,133	2,335,124
Warranty provision		<u>4,970,441</u>	<u>3,708,616</u>
		<u>89,627,533</u>	<u>115,727,471</u>
Total liabilities		<u><u>129,584,151</u></u>	<u><u>155,459,374</u></u>
Total equity and liabilities		<u><u>273,507,211</u></u>	<u><u>292,891,870</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

(Expressed in RMB)

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(4,389,730)	9,785,288
Net cash generated from/(used in) investing activities	15,548,773	(45,007,945)
Net cash (used in)/generated from financing activities	<u>(7,854,799)</u>	<u>4,498,686</u>
Net increase/(decrease) in cash and cash equivalents	3,304,244	(30,723,971)
Cash and cash equivalents at the beginning of the year	23,511,579	54,752,443
Effects of exchange rate changes on cash and cash equivalents	<u>791,438</u>	<u>(516,893)</u>
Cash and cash equivalents at end of the year	<u>27,607,261</u>	<u>23,511,579</u>

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.

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.

(a) *New and amended standards adopted by the Group*

The following new and amended standards, and annual improvements are mandatory for the first time for the Group’s financial year beginning on January 1, 2022 and are applicable for the Group:

- Reference to the Conceptual Framework — Amendment to IFRS 3
- Property, Plant and Equipment: Proceeds before intended use — Amendment to IAS 16
- Onerous Contracts — Cost of Fulfilling a Contract — Amendment to IAS 37
- Narrow-scope amendments — Amendments to IFRS 3, IAS 16 and IAS 37
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to AG 5 Merger Accounting for Common Control Combinations

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

(b) *New 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, 2022 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of net (losses)/profits of investments accounted for using the equity method, other income, other losses, net, finance income, finance costs and income tax expenses are also not allocated to individual operating segments.

The segment results for the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31, 2022				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	167,217,177	79,794,877	28,321,444	4,710,518	280,044,016
Cost of sales	(152,248,415)	(68,296,397)	(7,974,356)	(3,947,658)	(232,466,826)
Gross profit	14,968,762	11,498,480	20,347,088	762,860	47,577,190

	Year ended December 31, 2021				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	208,868,944	84,980,097	28,211,739	6,248,365	328,309,145
Cost of sales	(184,007,856)	(73,888,603)	(7,316,598)	(4,835,147)	(270,048,204)
Gross profit	24,861,088	11,091,494	20,895,141	1,413,218	58,260,941

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

For the years ended December 31, 2022 and 2021, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2022		2021	
	RMB'000	%	RMB'000	%
Mainland China	142,258,417	50.8	164,717,704	50.2
Rest of the world (Note (a))	137,785,599	49.2	163,591,441	49.8
	<u>280,044,016</u>		<u>328,309,145</u>	

Note:

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

3 Expenses by nature

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Cost of inventories sold and royalty fees	208,148,924	251,459,641
Provision for impairment of inventories	7,794,470	2,831,529
Employee benefit expenses	16,607,997	13,821,526
Depreciation of property and equipment, right-of-use assets and investment properties	2,310,951	1,804,312
Amortization of intangible assets	1,396,442	1,257,334
Promotion and advertising expenses	7,233,932	7,245,809
Content fees to game developers and video providers	3,137,676	2,812,893
Credit loss allowance	217,971	5,764
Consultancy and professional service fees	1,495,318	1,429,688
Cloud service, bandwidth and server custody fees	2,259,250	1,810,655
Warranty expenses	5,419,526	4,550,168
Auditor's remuneration		
— Audit services	54,618	56,116
— Non-audit services	29,000	34,920

4 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2022 and 2021 are analyzed as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Current income tax	2,267,077	4,135,298
Deferred income tax	(835,689)	998,500
Income tax expenses	<u>1,431,388</u>	<u>5,133,798</u>

5 Earnings per share

(a) Basic

Basic earnings per share for the years ended December 31, 2022 and 2021 are calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	2,474,030	19,339,321
Weighted average number of ordinary shares in issue (thousand shares)	24,828,316	24,927,461
Basic earnings per share (expressed in RMB per share)	0.10	0.78

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the inclusion of potential ordinary shares from the convertible bonds would be anti-dilutive, it is not included in the calculation of diluted earnings per share.

For the years ended December 31, 2022 and 2021, the share options and RSUs granted by the Group's subsidiaries and associates had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted earnings per share.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	2,474,030	19,339,321
Weighted average number of ordinary shares in issue (thousand shares)	24,828,316	24,927,461
Adjustments for RSUs and share options granted to employees (thousand shares)	468,412	569,667
Adjustments for share consideration for acquisition of Zimi (thousand shares)	655	12,303
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	25,297,383	25,509,431
Diluted earnings per share (expressed in RMB per share)	0.10	0.76

6 Investments

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Amortized cost	—	1,597,919
— Fair value through other comprehensive income	449,109	710,865
— Fair value through profit or loss	9,845,910	29,311,848
	10,295,019	31,620,632
Non-current assets		
Long-term investments measured at amortized cost	405,371	351,362
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments	18,726,499	22,755,228
— Preferred shares investments	31,053,080	25,108,840
— Other investments	6,200,395	2,249,634
	56,385,345	50,465,064

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

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value changes on ordinary shares investments	(4,341,258)	4,423,582
Fair value changes on preferred shares investments	2,265,456	3,000,810
Fair value changes on short-term investments measured at fair value through profit or loss	24,510	695,240
Fair value changes on other investments	389,282	12,501
	(1,662,010)	8,132,133

7 Trade receivables

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

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	9,325,061	15,740,356
3 to 6 months	1,946,964	1,477,059
6 months to 1 year	469,147	652,701
1 to 2 years	150,685	184,058
Over 2 years	108,557	95,306
	<u>12,000,414</u>	<u>18,149,480</u>
Less: credit loss allowance	(205,340)	(163,977)
	<u>11,795,074</u>	<u>17,985,503</u>

8 Inventories

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Raw materials	17,122,900	19,314,001
Finished goods	28,650,303	23,934,395
Work in progress	3,068,508	4,627,210
Spare parts	4,410,902	3,896,430
Others	655,638	1,957,057
	<u>53,908,251</u>	<u>53,729,093</u>
Less: provision for impairment (Note(a))	(3,470,360)	(1,331,147)
	<u>50,437,891</u>	<u>52,397,946</u>

Note:

- (a) During the three months and the year ended December 31, 2022, the Group incurred inventory impairment provision approximately RMB2,187,749,000 and RMB7,794,470,000, respectively (2021: RMB1,337,520,000 and RMB2,831,529,000, respectively) and transferred out of such provision upon the sales of inventories approximately RMB1,629,131,000 and RMB5,655,257,000, respectively (2021: RMB1,005,635,000 and RMB2,726,094,000, respectively).

9 Borrowings

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Included in non-current liabilities		
Secured borrowings	102,325	1,576,761
Unsecured borrowings	16,656,195	15,004,487
Convertible bonds	4,734,741	4,138,542
	<u>21,493,261</u>	<u>20,719,790</u>
Included in current liabilities		
Secured borrowings	3,283	507,217
Unsecured borrowings	2,147,458	5,019,833
	<u>2,150,741</u>	<u>5,527,050</u>

10 Trade payables

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

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

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Up to 3 months	47,999,500	70,187,231
3 to 6 months	1,820,555	2,526,217
6 months to 1 year	2,172,721	1,343,318
1 to 2 years	855,854	490,484
Over 2 years	244,913	95,755
	<u>53,093,543</u>	<u>74,643,005</u>

11 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2022 and 2021.

12 Contingencies

The Group, in the ordinary course of its business, is involved in various claims, suits, and legal proceedings that arise from time to time. Since December 2021, Xiaomi Technology India Private Limited (“**Xiaomi India**”) has been involved in various investigations and notifications initiated by relevant Indian authorities including the Income Tax Department, the Directorate of Revenue Intelligence and the Directorate of Enforcement in relation to compliance with relevant income tax regulations, custom duties regulations as well as foreign exchange regulations.

In connection with one of the investigations mentioned above, Xiaomi India received orders alleging Xiaomi India has inappropriately deducted certain costs and expenses, including purchase costs of mobile phones and royalty fees paid to third parties as well as companies within the Group when computing its taxable income; and as a result, confirming certain of its bank deposits continue to be restricted.

Management assessed the aforesaid matters related to Xiaomi India, taking into considerations opinions from professional advisors, and concluded Xiaomi India has valid grounds to respond to the relevant Indian authorities. The Group, hence, has not made any provision as of December 31, 2022 pertaining to these matters.

Conclusions of legal proceedings, investigations and allegations could take a long period of time, and the Group could receive judgments or enter into settlements that may adversely affect its operating results or cash flows. Quantifying the related financial effects is not practical at this stage.

OTHER INFORMATION

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

During the Reporting Period and up to the date of the announcement, the Company repurchased a total of 235,248,000 Class B ordinary shares (the “**Class B Shares**”) of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at an aggregate consideration of approximately HK\$2,756,518,651 (the “**Shares Repurchased**”). Particulars of the Shares Repurchased are as follows:

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

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

The Class B Shares repurchased in November 2021, December 2021 and January 2022 were subsequently cancelled on March 11, 2022. A total of 6,392,324 Class A Shares were converted into Class B Shares on a one-to-one ratio on March 11, 2022, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 5,756,989 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 635,335 Class A Shares.

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

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

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

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

Compliance with the Corporate Governance Code

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

Save for code provision C.2.1 of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, the Company has complied with all the code provisions set out in the CG Code throughout the Reporting Period.

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

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiries of all the Directors, all the Directors confirmed that they have complied with the provisions of the Model Code during the Reporting Period and up to the date of this announcement.

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the 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 external auditor of the Company, PricewaterhouseCoopers.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and the related notes thereto for the Reporting Period as set out in this announcement have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on this announcement.

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.

Use of Net Proceeds

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

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

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

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

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

The net proceeds received by the Company from the 2031 Bonds were approximately US\$789.0 million. The Group intends to use these proceeds for general corporate purposes. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated July 8, 2021.

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

The net proceeds received by the Company from the Green Bonds were approximately US\$392.8 million. The Group intends to use these proceeds or an equivalent amount thereof for financing or refinancing, in whole or in part, one or more of the Group's new or existing eligible projects pursuant to the Group's Green Finance Framework. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated July 8, 2021.

Final Dividend

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

Events after the End of the Reporting Period

Save as disclosed in this announcement, there has been no other significant events that might affect the Group since the end of the Reporting Period and up to the date of this announcement.

Publication of the Annual Results Announcement and Annual Report

This annual results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.mi.com. The annual report of the Company will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, March 24, 2023

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