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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)

RESULTS ANNOUNCEMENT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Xiaomi Corporation 小米集团 (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three and six months ended June 30, 2021. These interim results have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, and reviewed by PricewaterhouseCoopers, the independent auditor of the Company, in accordance with International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”, issued by the International Auditing and Assurance Standards Board. The interim results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

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

KEY HIGHLIGHTS

| | Unaudited Three months ended | | | | Quarter- over- quarter change |
|--------------------------|---------------------------------|------------------|------------------------------|-------------------|--|
| | June 30, 2021 | June 30, 2020 | Year- over-year change | March 31, 2021 | |
| Revenue | 87,789.0 | 53,537.8 | 64.0% | 76,882.2 | 14.2% |
| Gross profit | 15,148.1 | 7,701.4 | 96.7% | 14,161.3 | 7.0% |
| Operating profit | 10,725.7 | 5,413.0 | 98.1% | 8,157.7 | 31.5% |
| Profit before income tax | 9,678.5 | 4,867.8 | 98.8% | 9,066.9 | 6.7% |
| Profit for the period | 8,263.3 | 4,493.5 | 83.9% | 7,788.9 | 6.1% |
| Non-IFRS measure: | | | | | |
| Adjusted Net Profit | 6,321.5 | 3,373.2 | 87.4% | 6,069.3 | 4.2% |

**Unaudited
Six months ended**

| | June 30, 2021 | June 30, 2020 | Year- over-year change |
|---------------------------------------|-------------------------------------|------------------|------------------------------|
| | (RMB in millions, unless specified) | | |
| Revenue | 164,671.2 | 103,240.0 | 59.5% |
| Gross profit | 29,309.4 | 15,259.9 | 92.1% |
| Operating profit | 18,883.4 | 7,736.2 | 144.1% |
| Profit before income tax | 18,745.4 | 7,321.9 | 156.0% |
| Profit for the period | 16,052.2 | 6,653.4 | 141.3% |
| Non-IFRS measure: Adjusted Net Profit | 12,390.8 | 5,673.7 | 118.4% |

BUSINESS REVIEW AND OUTLOOK

1. Overall Performance

In the second quarter of 2021, our total revenue amounted to RMB87.8 billion, representing an increase of 64.0% year-over-year; profit for the period was RMB8.3 billion, an increase of 83.9% year-over-year; adjusted net profit for the period was RMB6.3 billion, an increase of 87.4% year-over-year. Our total revenue and adjusted net profit both reached record highs in the quarter.

Our core “Smartphone × AIoT” strategy continued to underpin our outstanding performance. According to Canalys, in the second quarter of 2021, our global smartphone shipments ranking rose to No. 2 for the first time, with a market share of 16.7%. Our smartphone shipments in mainland China ranked among the top three, with a market share of 16.8%. Due to the strong growth in smartphone shipments, we achieved new record high monthly active users (“MAU”) of MIUI both globally and in mainland China in June 2021, reaching 453.8 million and 124.0 million, respectively. At the same time, our AIoT platform continued to expand, with the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reaching 374.5 million as of June 30, 2021. In June 2021, the MAU of our AI assistant (“小愛同學”) exceeded the 100 million mark for the first time, reaching 102.0 million.

We further strengthened our online and offline channels in mainland China. During the 618 e-Commerce Shopping Festival in 2021, Xiaomi’s full spectrum of products gained widespread popularity, with total gross merchandise value from all sales channels exceeding RMB19.0 billion, representing an increase of 90% year-over-year. The sales volume of our smartphones ranked No. 1 among Android smartphones sold through major e-commerce platforms, and our IoT products achieved 158 No. 1 rankings in their respective categories across major e-commerce platforms. Meanwhile, we continued to expand our offline presence, with the total number of our retail stores in mainland China grew to more than 7,600 as of June 30, 2021. According to third party data, the offline market share of our smartphone shipments in mainland China grew to 7.8% in the second quarter of 2021 from 7.0% in the first quarter of 2021.

Our overseas business also maintained strong growth momentum. In the second quarter of 2021, our revenue from overseas markets amounted to RMB43.6 billion, reaching an all-time high and representing a year-over-year increase of 81.6%. According to Canalys, in terms of smartphone shipments, we ranked No. 1 in 22 markets worldwide and ranked No. 1 for the first time in Europe, with a market share of 28.5%.

We have never stopped exploring advanced and pioneering technologies since our inception. At our launch event on August 10, 2021, we debuted several new products, including the smartphone with the full screen display *Xiaomi MIX 4*, *Xiaomi Pad 5 Series*, *Xiaomi TV Master 77" OLED*, the high-fidelity smart speaker *Xiaomi Sound*, and *CyberDog*, our bio-inspired quadruped robot. In July 2021, we officially broke ground on the Xiaomi Smart Factory Phase II located in the Changping district of Beijing (“**Changping Smart Factory**”). This facility will build upon our R&D and production capabilities at our Xiaomi Smart Factory Phase I, located in the Yizhuang area of Beijing (“**Yizhuang Smart Factory**”), and marks an important step in Xiaomi’s development in the smart manufacturing industry.

Our achievements have been globally recognized. August 2021 marked our third consecutive entry into Fortune Global 500 list, ranking 338th, advancing 84 spots from its ranking in 2020. In addition, in June 2021, Xiaomi was included on the BrandZ™ Top 100 Most Valuable Global Brands list for the third consecutive year, with its ranking rising to 70th.

2. Smartphones

Our smartphone business continued to exhibit significant growth in the second quarter of 2021, highlighted by record-breaking smartphone revenue and shipments. Smartphone revenue amounted to RMB59.1 billion in the second quarter of 2021, representing an increase of 86.8% year-over-year. Our global smartphone shipments reached 52.9 million units, representing an increase of 86.8% year-over-year. According to Canalys, our global smartphone shipments ranked No. 2 for the first time, with a market share of 16.7% in the second quarter of 2021. Meanwhile, our smartphone shipments in mainland China also grew rapidly. According to Canalys, in the second quarter of 2021, our smartphone market share in mainland China rose to 16.8% from 10.3% in the second quarter of 2020, ranking third with a 35.1% year-over-year increase in smartphone shipments, the highest growth rate among major players in the market.

We continue to execute our dual-brand strategy. Under the Xiaomi brand, we remain focused on enriching our premium smartphone portfolio. Following the widespread popularity of *Xiaomi 11 Pro*, *Xiaomi 11 Ultra* and *Xiaomi MIX FOLD* in the first quarter of 2021, on August 10, we unveiled our first camera-under-panel full display smartphone *Xiaomi MIX 4*, wrapped with lightweight fine ceramic unibody. It supports our “Point to Connect” Ultra Wide Band (UWB) technology, and is the first smartphone in the market equipped with Qualcomm Snapdragon 888+ processor. *Xiaomi MIX 4* was well received by the market since its launch. According to third party data, in the second quarter of 2021, our smartphones in mainland China with prices between RMB3,000 and RMB4,000, RMB4,000 and RMB5,000, and above RMB5,000, witnessed a year-over-year net market share gain of 8.4, 4.1, and 3.6 percentage point, respectively. In the first half of 2021, the global shipments of our smartphones with retail prices at or above RMB3,000 in mainland China and EUR300 or equivalent in overseas markets exceeded 12 million units, surpassing the total of around 10 million units shipped in 2020.

Our Redmi brand continues to provide competitive products. As of April 30, 2021, accumulated global shipments of the Redmi Note Series surpassed 200 million units, reflecting increasing mass-market resonance of our Redmi brand and the high quality of Redmi smartphones. On May 26, 2021, we unveiled the *Redmi Note 10* series in mainland China, where it enjoyed an enthusiastic reception.

Looking forward, we will continue to execute our dual-brand strategy, boost investments in advance technology, recruit and foster talent and upgrade channel capabilities, enhance our premium smartphone offerings and improve user experience.

3. IoT and lifestyle products

In the second quarter of 2021, our IoT and lifestyle products segment maintained robust growth, with revenue increasing 35.9% year-over-year to RMB20.7 billion.

In the second quarter of 2021, global shipments of our smart TVs surpassed 2.5 million units, maintaining our leading market position. According to All View Cloud (“AVC”), our TV shipments ranked No. 1 in mainland China for the 10th consecutive quarter and remained among the top five globally in the second quarter of 2021. In addition, we further expanded premium and ultra-large screen TV portfolio, including the *Xiaomi TV 6 Ultra Edition*, the *Xiaomi TV ES* series, *Xiaomi TV Master 77” OLED* and the *Xiaomi TV 6 OLED*, which have been well received by the market.

On August 10, 2021, we launched the *Xiaomi Pad 5* Series with features including our proprietary MIUI for Pad operating system, an 11-inch 2.5K ultra high performance LCD panel, and a Qualcomm Snapdragon 860/870 processor. We also released *Xiaomi Sound*, a high-fidelity smart speaker. Embedded with a Harman audio system and enabled with 360° omni-directional sound output, it delivers best-in-class sound quality. The *Xiaomi Sound* debut reflects Xiaomi’s efforts in smart speaker products and technology advances in high-fidelity sound products. We also took another bold step in the exploration of futuristic technology with the debut of *CyberDog*. It is our first bio-inspired quadruped robotics product, and an open-source robot companion that developers can build upon.

In the second quarter of 2021, our IoT and lifestyle product segment also maintained its rapid growth trajectory in overseas markets. Revenue from our IoT and lifestyle products in overseas markets increased by 93.8% year-over-year in the quarter. Our electric scooters, smart TVs, smart bands, and smart watches maintained their widespread popularity in the overseas market.

Going forward, we will remain committed to our core “Smartphone × AIoT” strategy, working fervently to advance innovations in sophisticated and cutting-edge technologies across product categories. We will also continue enhancing connectivity between our smartphones and IoT products to deliver a seamless user experience across our range of high-quality products, bringing a better life to everyone in the world.

4. Internet services

Our internet services segment maintained its growth momentum. In the second quarter of 2021, revenue from internet services amounted to RMB7.0 billion, reaching a record high and representing an increase of 19.1% year-over-year.

Our global internet user base continued to expand rapidly and reached an all-time high in the second quarter of 2021. In June 2021, the MAU of MIUI increased 32.1% year-over-year to 453.8 million, with MAU in mainland China reaching 124.0 million, representing a year-over-year increase of 13.0% and a net gain of 5.3 million users from March 2021. In June 2021, the MAU of our global smart TV and *Xiaomi Box* increased over 34.0% year-over-year. As of June 30, 2021, our number of TV paid subscribers increased to 4.7 million, an increase of 17.1% year-over-year.

In the second quarter of 2021, our quarterly advertising revenue reached another record high of RMB4.5 billion, representing an increase of 46.2% year-over-year. Our gaming revenue in the second quarter of 2021 decreased by 10.7% year-over-year to RMB0.9 billion, due to an adjustment of our business terms with certain game publishers and the high base of last year. In the second quarter of 2021, revenue from other value-added services amounted to RMB1.6 billion, a decrease of 10.3% year-over-year, primarily due to our strengthened risk controls and continued management of the scale of our fintech business to ensure stable operations.

In the second quarter of 2021, our overseas internet services revenue amounted to RMB1.1 billion, representing an increase of 96.8% year-over-year. In this quarter, our overseas internet services revenue accounted for 15.6% of the total internet services revenue. Overseas internet services revenue and its contribution to total internet services revenue both reached new highs. On one hand, we continued to expand our user base in key overseas markets. In June 2021, our MIUI MAU in Western Europe and Latin America grew over 60% and 125% year-over-year, respectively. On the other hand, we continued to strengthen our capabilities in providing internet services through broader and deeper collaborations with leading internet companies globally.

Looking forward, we are committed to providing diversified internet service offerings to our global user base and enhancing their smart living experiences.

5. Overseas markets

In the second quarter of 2021, we maintained our strong growth momentum in overseas markets, delivering record-breaking performance in major markets around the world. In the second quarter, our revenue from overseas markets increased by 81.6% year-over-year to RMB43.6 billion, reaching a record high and accounting for 49.7% of total revenue.

According to Canalys, our market share in the second quarter ranked among the top five in 65 markets globally and No. 1 in 22 markets, 10 of those we achieved No. 1 for the first time.

We continued to improve our competitive advantages in key markets. According to Canalys, in the second quarter of 2021, we ranked No. 1 in Europe for the first time with a market share of 28.5%. In Western Europe, our smartphone market share reached 22.2% and ranked among the top three; and in Central and Eastern Europe, our 36.4% market share ranked No. 1 for the 3rd consecutive quarter. We ranked No. 1 in Spain for the 6th consecutive quarter with a market share of 41.2%. In Italy and France, we ranked No. 1 for the first time, with a market share of 35.0% and 29.7%, respectively. We also remained among the top three in Germany with a market share of 15.2%. According to Canalys, we have been ranked No. 1 in India for the 15th consecutive quarter in the second quarter of 2021.

Our high-quality products also gained widespread popularity in emerging markets with smartphone shipments in those regions witnessing rapid growth. According to Canalys, in the second quarter of 2021, our smartphone shipments in Latin America grew by 324.4% year-over-year and ranked among the top three. Meanwhile, our market share in the Middle East and Africa grew to 20.9% and 8.5%, respectively. Furthermore, we delivered outstanding performance in Southeast Asia. We ranked No. 1 in Indonesia and our smartphone market share reached 28.2%.

In an unwavering effort to strengthen our channel capabilities in overseas markets, we consistently strive to improve our compliance framework and operational efficiency. In the first half of 2021, we sold nearly 12 million smartphones via carrier channels in overseas markets, excluding India, representing an increase of over 300% year-over-year. According to Canalys, our smartphone market share in Western Europe carrier channels increased to 14.2% in the second quarter of 2021 from 11.3% in the first quarter of 2021. We also continued to leverage our online channels overseas. In the first half of 2021, we sold more than 10 million smartphones via online channels in overseas markets, excluding India, representing an increase of over 60% year-over-year.

6. Strategy updates

Smartphone × AIoT

As of June 30, 2021, the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reached 374.5 million units, representing a year-over-year increase of 34.0%. The number of users with five or more devices connected to our AIoT platform (excluding smartphones and laptops) reached 7.4 million, representing a year-over-year increase of 44.5%. In June 2021, the MAU of our AI Assistant (“小愛同學”) exceeded the 100 million mark for the first time, reaching 102.0 million, and the MAU of our Mi Home App grew to 56.5 million, representing a year-over-year increase of 38.6%.

On August 10, 2021, we launched several new products that supported our “Point to Connect” UWB technology, including *Xiaomi MIX 4*, *Xiaomi Sound* and *Xiaomi TV Master 77” OLED*. With the UWB technology, users can point their smartphones to Xiaomi’s compatible IoT products and immediately connect the smartphone’s contents to these IoT products, enhancing user experience and user stickiness between smartphones and our IoT products.

Investment in Technology

We remain steadfast in our pursuit of technological advancement which strengthens the backbone of our business. In the second quarter of 2021, we recorded RMB3.1 billion in research and development expenses, representing a year-over-year increase of 56.5%.

In July 2021, we officially broke ground on the Changping Smart Factory located in the Changping district of Beijing. The facility will build upon our R&D and production capabilities at our Yizhuang Smart Factory. We aim to have the Changping Smart Factory support annual production capacity of up to 10 million premium smartphones. We believe that our smart factories will leverage our cutting-edge technologies and demonstrate transformative efficiency gains, further hastening the efficiency revolution in China's manufacturing industry.

Talent Development

Since our inception, we have always attached great importance to talent development and motivation. In July 2021, we announced two separate award grants. On July 2, we granted equity awards to selected groups of young engineers, graduate recruits, and employees in critical positions, as well as outstanding engineers recognized by the Xiaomi annual technology awards. On July 5, we granted new equity awards to 122 technology specialists, middle and senior management and recipients of our New 10-year Entrepreneurship Program. As we look to Xiaomi's next decade, we intend to appoint and foster young executive managerial talent, rewarding them with entrepreneurial incentives to motivate them to forge ahead at Xiaomi with an entrepreneurial spirit.

ESG

We are committed to fulfilling our social responsibilities to promote sustainable development through environmental, social and corporate governance best practices. On July 14, 2021, we published our 2020 Sustainability Report, outlining our approaches and practices on sustainability initiatives such as circular economy, accessibility and renewable energy. In the same month, we issued our inaugural 30-year US\$400 million green bond, demonstrating our strategic determination toward a green economy and sustainable development. The proceeds of the green bond issuance will be used in eligible green projects under the "Green Finance Framework", including clean transportation, green building, energy efficiency, environment efficiency, and developing circular economy products and relevant manufacturing technologies and processes.

In addition, in the wake of recent natural disasters caused by extreme climate conditions in China and around the world, we undertook corporate initiatives and social responsibilities for public welfare. Together with the Xiaomi Foundation, we acted quickly and provided assistance to those in disaster-stricken places in Henan Province of China and in Germany.

Data Security and Privacy

We firmly believe that cybersecurity compliance and user trust are vital for our future development. Since establishing the Xiaomi Security and Privacy Committee in 2014, we have received the TrustArc privacy certification, started preparation work for the European Union General Data Protection Regulation (GDPR) compliance assessment with the evaluation of third-party consulting companies completed, and earned three international ISO security and privacy certifications in 2019. In June 2021, we released the 2020 MIUI Security and Privacy White Paper, the third edition of this publication. The 2020 white paper highlighted our privacy practices using input tools and stealth mode and provided details regarding our brand-new Xiaomi Trust Center. In the same month, we also held our first Security and Privacy Awareness Month at the Xiaomi Science and Technology Park. During this 30-day event, we hosted six privacy-themed activities and our interactive exhibitions attracted 12,000 visits, raising our employees' awareness of information security and privacy protection.

Investment

As of June 30, 2021, we had invested in more than 330 companies with an aggregate book value of RMB57.9 billion, an increase of 57.3% year-over-year. In the second quarter of 2021, we recorded a net income after tax of RMB1.1 billion from the disposal of investments. As of June 30, 2021, 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 June 30, 2021 (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 RMB74.5 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2021 Compared to Second Quarter of 2020

The following table sets forth the comparative figures for the second quarter of 2021 and the second quarter of 2020:

| | Unaudited | |
|---|---------------------------|-----------------|
| | Three months ended | |
| | June 30, | June 30, |
| | 2021 | 2020 |
| | (RMB in millions) | |
| Revenue | 87,789.0 | 53,537.8 |
| Cost of sales | (72,640.9) | (45,836.4) |
| Gross profit | 15,148.1 | 7,701.4 |
| Selling and marketing expenses | (5,680.7) | (3,223.7) |
| Administrative expenses | (1,150.3) | (836.4) |
| Research and development expenses | (3,064.2) | (1,958.3) |
| Fair value changes on investments measured at fair value through profit or loss | 4,165.4 | 2,366.2 |
| Share of net (losses)/profits of investments accounted for using the equity method | (26.2) | 892.6 |
| Other income | 234.6 | 183.1 |
| Other gains, net | 1,099.0 | 288.1 |
| Operating profit | 10,725.7 | 5,413.0 |
| Finance costs, net | (1,047.2) | (545.2) |
| Profit before income tax | 9,678.5 | 4,867.8 |
| Income tax expenses | (1,415.2) | (374.3) |
| Profit for the period | 8,263.3 | 4,493.5 |
| Non-IFRS measure: Adjusted Net Profit | 6,321.5 | 3,373.2 |

Revenue

Revenue increased by 64.0% to RMB87.8 billion in the second quarter of 2021 on a year-over-year basis. The following table sets forth our revenue by line of business in the second quarter of 2021 and the second quarter of 2020.

| | Unaudited Three months ended | | | |
|----------------------------|---------------------------------|-----------------------|-----------------|-----------------------|
| | June 30, 2021 | | June 30, 2020 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| Smartphones | 59,089.0 | 67.3% | 31,627.5 | 59.1% |
| IoT and lifestyle products | 20,734.7 | 23.6% | 15,252.9 | 28.5% |
| Internet services | 7,033.5 | 8.0% | 5,907.6 | 11.0% |
| Others | 931.8 | 1.1% | 749.8 | 1.4% |
| Total revenue | <u>87,789.0</u> | <u>100.0%</u> | <u>53,537.8</u> | <u>100.0%</u> |

Smartphones

Revenue from our smartphones segment increased by 86.8% from RMB31.6 billion in the second quarter of 2020 to RMB59.1 billion in the second quarter of 2021. We sold 52.9 million smartphone units in the second quarter of 2021, compared to 28.3 million units in the second quarter of 2020. The ASP of our smartphones was RMB1,116.7 per unit in the second quarter of 2021, compared with RMB1,116.3 per unit in the second quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 35.9% from RMB15.3 billion in the second quarter of 2020 to RMB20.7 billion in the second quarter of 2021. The increase in revenue was primarily due to the strong growth in sales of certain IoT products, such as smart TVs, air conditioners and electric scooters. Revenue from smart TVs and laptops increased by 25.0% from RMB4.8 billion in the second quarter of 2020 to RMB6.0 billion in the second quarter of 2021.

Internet services

Revenue from our internet services segment increased by 19.1% from RMB5.9 billion in the second quarter of 2020 to RMB7.0 billion in the second quarter of 2021, primarily due to the growth in revenue from advertising business. Our global MAU of MIUI reached 453.8 million in June 2021, an increase of 32.1% from 343.5 million in June 2020.

Others

Other revenue increased by 24.3% from RMB749.8 million in the second quarter of 2020 to RMB931.8 million in the second quarter of 2021, primarily due to the increase in revenue from the installation services provided for certain IoT products as well as sale of materials.

Cost of Sales

Our cost of sales increased by 58.5% from RMB45.8 billion in the second quarter of 2020 to RMB72.6 billion in the second quarter of 2021. The following table sets forth our cost of sales by line of business in the second quarter of 2021 and the second quarter of 2020:

| | Unaudited | | | |
|----------------------------|--|---------------------------|------------------------|---------------------------|
| | Three months ended | | June 30, 2020 | |
| | June 30, 2021 | | June 30, 2020 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| Smartphones | 52,095.5 | 59.3% | 29,336.6 | 54.8% |
| IoT and lifestyle products | 17,992.3 | 20.5% | 13,515.2 | 25.2% |
| Internet services | 1,819.7 | 2.1% | 2,347.5 | 4.4% |
| Others | 733.4 | 0.8% | 637.1 | 1.2% |
| Total cost of sales | <u>72,640.9</u> | <u>82.7%</u> | <u>45,836.4</u> | <u>85.6%</u> |

Smartphones

Cost of sales related to our smartphones segment increased by 77.6% from RMB29.3 billion in the second quarter of 2020 to RMB52.1 billion in the second quarter of 2021, primarily due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 33.1% from RMB13.5 billion in the second quarter of 2020 to RMB18.0 billion in the second quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 22.5% from RMB2.3 billion in the second quarter of 2020 to RMB1.8 billion in the second quarter of 2021, primarily due to the decreased cost of our fintech business.

Others

Cost of sales related to our others segment increased by 15.1% from RMB637.1 million in the second quarter of 2020 to RMB733.4 million in the second quarter of 2021, primarily due to the increase in cost from the installation services provided for certain IoT products as well as sale of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 96.7% from RMB7.7 billion in the second quarter of 2020 to RMB15.1 billion in the second quarter of 2021.

The gross profit margin from our smartphones segment increased from 7.2% in the second quarter of 2020 to 11.8% in the second quarter of 2021, mainly due to the improved product mix.

The gross profit margin from our IoT and lifestyle products segment increased from 11.4% in the second quarter of 2020 to 13.2% in the second quarter of 2021, mainly due to the strong growth in our certain IoT products with higher gross profit margin.

The gross profit margin from our internet services segment increased from 60.3% in the second quarter of 2020 to 74.1% in the second quarter of 2021, mainly due to higher revenue contribution from our advertising business, and the increase of gross profit margin from our fintech business and advertising business.

As a result of the foregoing, our gross profit margin increased from 14.4% in the second quarter of 2020 to 17.3% in the second quarter of 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 76.2% from RMB3.2 billion in the second quarter of 2020 to RMB5.7 billion in the second quarter of 2021, primarily due to the increase in promotion and advertising expenses and packing and transportation expenses.

Promotion and advertising expenses increased 95.2% from RMB1.1 billion in the second quarter of 2020 to RMB2.1 billion in the second quarter of 2021, primarily due to our elevated marketing efforts to increase brand awareness. Packaging and transportation expenses increased by 59.5% from RMB0.9 billion in the second quarter of 2020 to RMB1.4 billion in the second quarter of 2021, primarily due to the expansion of our overseas business.

Administrative Expenses

Our administrative expenses increased by 37.5% from RMB0.8 billion in the second quarter of 2020 to RMB1.2 billion in the second quarter of 2021, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 56.5% from RMB2.0 billion in the second quarter of 2020 to RMB3.1 billion in the second quarter of 2021, primarily due to the increase in compensation for research and development personnel and the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss increased by 76.0% from a gain of RMB2.4 billion in the second quarter of 2020 to RMB4.2 billion in the second quarter of 2021, primarily due to the higher fair value gains of equity and preferred share investments in the second quarter of 2021.

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

Our share of net (losses)/profits of investments accounted for using the equity method changed from a net gain of RMB892.6 million in the second quarter of 2020 to a net loss of RMB26.2 million in the second quarter of 2021, primarily due to the share of loss of certain investees in the second quarter of 2021.

Other Income

Our other income increased by 28.2% from RMB183.1 million in the second quarter of 2020 to RMB234.6 million in the second quarter of 2021, primarily due to the increased of dividend income received from our investee companies.

Other Gains, Net

Our other net gains increased by 281.5% from RMB288.1 million in the second quarter of 2020 to RMB1,099.0 million in the second quarter of 2021. This was mainly due to the gains on disposal from our investee companies in the second quarter of 2021.

Finance Costs, Net

Our net finance costs increased by 92.1% from RMB545.2 million in the second quarter of 2020 to RMB1,047.2 million in the second quarter of 2021, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 278.1% from RMB374.3 million in the second quarter of 2020 to RMB1,415.2 million in the second quarter of 2021, primarily due to the increase of taxable income in the second quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB8.3 billion in the second quarter of 2021, compared with a profit of RMB4.5 billion in the second quarter of 2020.

Second Quarter of 2021 Compared to First Quarter of 2021

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

| | Unaudited | |
|---|---------------------------|------------------|
| | Three months ended | |
| | June 30, | March 31, |
| | 2021 | 2021 |
| | (RMB in millions) | |
| Revenue | 87,789.0 | 76,882.2 |
| Cost of sales | (72,640.9) | (62,720.9) |
| Gross profit | 15,148.1 | 14,161.3 |
| Selling and marketing expenses | (5,680.7) | (4,163.5) |
| Administrative expenses | (1,150.3) | (987.7) |
| Research and development expenses | (3,064.2) | (3,012.0) |
| Fair value changes on investments measured at fair value through profit or loss | 4,165.4 | 2,063.2 |
| Share of net (losses)/profits of investments accounted for using the equity method | (26.2) | 9.0 |
| Other income | 234.6 | 152.1 |
| Other gains/(losses), net | 1,099.0 | (64.7) |
| Operating profit | 10,725.7 | 8,157.7 |
| Finance (costs)/income, net | (1,047.2) | 909.2 |
| Profit before income tax | 9,678.5 | 9,066.9 |
| Income tax expenses | (1,415.2) | (1,278.0) |
| Profit for the period | 8,263.3 | 7,788.9 |
| Non-IFRS measure: Adjusted Net Profit | 6,321.5 | 6,069.3 |

Revenue

Revenue increased by 14.2% to RMB87.8 billion in the second quarter of 2021 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the second quarter of 2021 and the first quarter of 2021.

| | Unaudited | | | |
|----------------------------|-------------------------------------|--------------------|-----------------|--------------------|
| | Three months ended | | March 31, 2021 | |
| | June 30, 2021 | | March 31, 2021 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| Smartphones | 59,089.0 | 67.3% | 51,491.0 | 67.0% |
| IoT and lifestyle products | 20,734.7 | 23.6% | 18,243.3 | 23.7% |
| Internet services | 7,033.5 | 8.0% | 6,570.8 | 8.5% |
| Others | 931.8 | 1.1% | 577.1 | 0.8% |
| Total revenue | <u>87,789.0</u> | <u>100.0%</u> | <u>76,882.2</u> | <u>100.0%</u> |

Smartphones

Revenue from our smartphones segment increased by 14.8% from RMB51.5 billion in the first quarter of 2021 to RMB59.1 billion in the second quarter of 2021. We sold 52.9 million smartphone units in the second quarter of 2021, compared to 49.4 million units in the first quarter of 2021. The ASP of our smartphones was RMB1,116.7 per unit in the second quarter of 2021, compared with RMB1,042.1 per unit in the first quarter of 2021. The increase in ASP was primarily due to the increase in sales of our premium smartphones.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 13.7% from RMB18.2 billion in the first quarter of 2021 to RMB20.7 billion in the second quarter of 2021, primarily due to the growth in demand of certain IoT products, such as air conditioners, laptops and smart bands. Revenue from smart TVs and laptops increased by 7.1% from RMB5.6 billion in the first quarter of 2021 to RMB6.0 billion in the second quarter of 2021, primarily due to the launch of new laptop products.

Internet services

Revenue from our internet services segment increased by 7.0% from RMB6.6 billion in the first quarter of 2021 to RMB7.0 billion in the second quarter of 2021, primarily due to the increase in revenue from advertising business.

Others

Other revenue increased by 61.5% from RMB577.1 million in the first quarter of 2021 to RMB931.8 million in the second quarter of 2021, primarily due to the increase in revenue from sale of materials as well as the installation services provided for certain IoT products.

Cost of Sales

Our cost of sales increased by 15.8% from RMB62.7 billion in the first quarter of 2021 to RMB72.6 billion in the second quarter of 2021. The following table sets forth our cost of sales by line of business in the second quarter of 2021 and the first quarter of 2021:

| | Unaudited | | | |
|----------------------------|--|---------------------------|------------------------|---------------------------|
| | Three months ended | | | |
| | June 30, 2021 | | March 31, 2021 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| Smartphones | 52,095.5 | 59.3% | 44,857.4 | 58.3% |
| IoT and lifestyle products | 17,992.3 | 20.5% | 15,590.7 | 20.3% |
| Internet services | 1,819.7 | 2.1% | 1,816.1 | 2.4% |
| Others | 733.4 | 0.8% | 456.7 | 0.6% |
| Total cost of sales | <u>72,640.9</u> | <u>82.7%</u> | <u>62,720.9</u> | <u>81.6%</u> |

Smartphones

Cost of sales related to our smartphones segment increased by 16.1% from RMB44.9 billion in the first quarter of 2021 to RMB52.1 billion in the second quarter of 2021, primarily due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 15.4% from RMB15.6 billion in the first quarter of 2021 to RMB18.0 billion in the second quarter of 2021, 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 RMB1.8 billion in the second quarter of 2021 compared to the first quarter of 2021.

Others

Cost of sales related to our others segment increased by 60.6% from RMB456.7 million in the first quarter of 2021 to RMB733.4 million in the second quarter of 2021, due to the increase in cost from sale of materials as well as the installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 7.0% from RMB14.2 billion in the first quarter of 2021 to RMB15.1 billion in the second quarter of 2021. The gross profit margin from our smartphones segment decreased from 12.9% in the first quarter of 2021 to 11.8% in the second quarter of 2021, mainly due to enhanced promotional efforts during 618 e-Commerce Shopping Festival in mainland China in the second quarter of 2021.

The gross profit margin from our IoT and lifestyle products segment decreased from 14.5% in the first quarter of 2021 to 13.2% in the second quarter of 2021, mainly due to enhanced promotional efforts during 618 e-Commerce Shopping Festival in mainland China in the second quarter of 2021.

The gross profit margin from our internet services segment increased from 72.4% in the first quarter of 2021 to 74.1% in the second quarter of 2021.

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

Selling and Marketing Expenses

Our selling and marketing expenses increased by 36.4% from RMB4.2 billion in the first quarter of 2021 to RMB5.7 billion in the second quarter of 2021, primarily due to the increase in promotion and advertising expenses and packaging and transportation expenses.

Promotion and advertising expenses increased by 84.2% quarter-over-quarter to RMB2.1 billion, primarily due to our elevated marketing efforts for 618 e-Commerce Shopping Festival in mainland China and increased brand awareness in overseas markets. The packaging and transportation expenses increased by 24.9% quarter-over-quarter to RMB1.4 billion, primarily due to our strong growth momentum in overseas markets and enhanced promotional efforts for 618 e-Commerce Shopping Festival in mainland China.

Administrative Expenses

Our administrative expenses increased by 16.5% from RMB1.0 billion in the first quarter of 2021 to RMB1.2 billion in the second quarter of 2021, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 1.7% from RMB3.0 billion in the first quarter of 2021 to RMB3.1 billion in the second quarter of 2021.

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

Our fair value changes on investments measured at fair value through profit or loss increased by 101.9% from a gain of RMB2.1 billion in the first quarter of 2021 to a gain of RMB4.2 billion in the second quarter of 2021, primarily due to the higher fair value gains of equity and preferred share investments in the second quarter of 2021.

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

Our share of net (losses)/profits of investments accounted for using the equity method changed from a net gain of RMB9.0 million in the first quarter of 2021 to a net loss of RMB26.2 million in the second quarter of 2021, primarily due to the share of loss of certain investees in the second quarter of 2021.

Other Income

Our other income increased by 54.3% from RMB152.1 million in the first quarter of 2021 to RMB234.6 million in the second quarter of 2021, primarily due to the increase of dividend income received from our investee companies.

Other Gains/(Losses), Net

Our other net gains were RMB1,099.0 million in the second quarter of 2021, compared with net losses of RMB64.7 million in the first quarter of 2021. This is mainly due to the gains on disposal from our investee companies in the second quarter of 2021.

Finance (Costs)/Income, Net

Our net finance (costs)/income changed from net income of RMB909.2 million in the first quarter of 2021 to costs of RMB1,047.2 million in the second quarter of 2021, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 10.7% from RMB1,278.0 million in the first quarter of 2021 to RMB1,415.2 million in the second quarter of 2021, primarily due to the increase of taxable income in the second quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB8.3 billion in the second quarter of 2021, compared with a profit of RMB7.8 billion in the first quarter of 2021.

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 second quarter of 2021, the first quarter of 2021, the second quarter of 2020 and the first half of 2021 and 2020 to the nearest measures prepared in accordance with IFRS.

| | Unaudited | | | | | | Non-IFRS |
|-----------------------|----------------------------------|--------------------------|--|--|--|-----------------------------------|-----------|
| | Three Months Ended June 30, 2021 | | | | | | |
| | As reported | Share-based compensation | Net fair value changes on investments ⁽¹⁾ | Adjustments | | Income tax effects ⁽⁴⁾ | |
| | | | | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | Changes of value of financial liabilities to fund investors ⁽³⁾ | | |
| Profit for the period | 8,263,308 | 622,808 | (3,835,561) | 79 | 1,201,012 | 69,857 | 6,321,503 |
| Net margin | 9.4% | | | | | | 7.2% |

| | | Unaudited Three Months Ended March 31, 2021 | | | | | | |
|-----------------------|-------------|--|--|--|--|-----------------------------------|--|-----------------------------------|
| | | Adjustments | | | | | | |
| | | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | | | | | Changes of value of financial liabilities to fund investors ⁽³⁾ | Income tax effects ⁽⁴⁾ |
| | | Net fair value changes on investments ⁽¹⁾ | | | | | | Non-IFRS |
| | | (RMB in thousand, unless specified) | | | | | | |
| | As reported | Share-based compensation | Net fair value changes on investments ⁽¹⁾ | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | Changes of value of financial liabilities to fund investors ⁽³⁾ | Income tax effects ⁽⁴⁾ | Non-IFRS | |
| Profit for the period | 7,788,907 | 665,677 | (1,666,922) | 79 | (788,017) | 69,557 | 6,069,281 | |
| Net margin | 10.1% | | | | | | 7.9% | |

| | | Unaudited Three Months Ended June 30, 2020 | | | | | | |
|-----------------------|-------------|--|--|--|--|-----------------------------------|--|-----------------------------------|
| | | Adjustments | | | | | | |
| | | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | | | | | Changes of value of financial liabilities to fund investors ⁽³⁾ | Income tax effects ⁽⁴⁾ |
| | | Net fair value changes on investments ⁽¹⁾ | | | | | | Non-IFRS |
| | | (RMB in thousand, unless specified) | | | | | | |
| | As reported | Share-based compensation | Net fair value changes on investments ⁽¹⁾ | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | Changes of value of financial liabilities to fund investors ⁽³⁾ | Income tax effects ⁽⁴⁾ | Non-IFRS | |
| Profit for the period | 4,493,473 | 518,582 | (2,135,208) | 79 | 634,371 | (138,098) | 3,373,199 | |
| Net margin | 8.4% | | | | | | 6.3% | |

| | | Unaudited Six Months Ended June 30, 2021 | | | | | | |
|-----------------------|-------------|--|--|--|--|-----------------------------------|--|-----------------------------------|
| | | Adjustments | | | | | | |
| | | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | | | | | Changes of value of financial liabilities to fund investors ⁽³⁾ | Income tax effects ⁽⁴⁾ |
| | | Net fair value changes on investments ⁽¹⁾ | | | | | | Non-IFRS |
| | | (RMB in thousand, unless specified) | | | | | | |
| | As reported | Share-based compensation | Net fair value changes on investments ⁽¹⁾ | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | Changes of value of financial liabilities to fund investors ⁽³⁾ | Income tax effects ⁽⁴⁾ | Non-IFRS | |
| Profit for the period | 16,052,215 | 1,288,485 | (5,502,483) | 158 | 412,995 | 139,414 | 12,390,784 | |
| Net margin | 9.7% | | | | | | 7.5% | |

Unaudited
Six Months Ended June 30, 2020

| | As reported | Share-based compensation | Net fair value changes on investments ⁽¹⁾ | Adjustments | | Income tax effects ⁽⁴⁾ | Non-IFRS |
|-----------------------|-------------|--------------------------|--|--|--|-----------------------------------|-----------|
| | | | | Amortization of intangible assets resulting from acquisitions ⁽²⁾ | Changes of value of financial liabilities to fund investors ⁽³⁾ | | |
| Profit for the period | 6,653,367 | 1,088,503 | (2,521,878) | 158 | 675,377 | (221,818) | 5,673,709 |
| Net margin | 6.4% | | | | | | 5.5% |

(RMB in thousand, unless specified)

Notes:

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

Liquidity and Financial Resources

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

During the six months ended 30 June 2021, other than the funds raised through the 2020 Placing and Subscription and through the issuance of debt securities as described in “Issuance of Debt Securities” below, we funded our cash requirements principally from cash generated from our operations, bank borrowings. We had cash and cash equivalents of RMB31.9 billion and RMB34.3 billion as of June 30, 2021 and March 31, 2021, respectively.

Note:

The cash resources which the Group considered in cash management include but are not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss, short-term investments measured at amortized cost and long-term bank deposits. As of June 30, 2021, the aggregate amount of cash resources of the Group was RMB111.6 billion.

Issuance of Debt Securities

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

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

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 | |
| | June 30, 2021 | March 31, 2021 |
| | (in millions of RMB) | |
| Net cash generated from operating activities ⁽¹⁾ | 6,830.3 | 1,454.0 |
| Net cash used in investing activities | (6,440.7) | (25,546.7) |
| Net cash (used in)/generated from financing activities ⁽¹⁾ | (2,513.5) | 3,583.6 |
| Net decrease in cash and cash equivalents | (2,123.9) | (20,509.1) |
| Cash and cash equivalents at beginning of period | 34,279.5 | 54,752.4 |
| Effects of exchange rate changes on cash and cash equivalents | (274.6) | 36.2 |
| Cash and cash equivalents at end of period | 31,881.0 | 34,279.5 |

Note:

- (1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments related to the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar bank, the net cash generated from operating activities was RMB8.4 billion in the second quarter of 2021 and the net cash used in operating activities was RMB772.2 million in the first quarter of 2021, respectively. Excluding the change of borrowings for the fintech business, the net cash used in financing activities was RMB0.5 billion in the second quarter of 2021 and the net cash generated from financing activities was RMB4.6 billion in the first quarter of 2021, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group’s auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash 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 second quarter of 2021, net cash generated from our operating activities amounted to RMB6.8 billion, representing cash generated from operations of RMB7.5 billion minus income tax paid of RMB0.7 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB9.7 billion, adjusted by an increase in trade payables of RMB9.1 billion, partially offset by an increase in inventories of RMB7.9 billion and fair value gains on investments measured at fair value through profit or loss of RMB4.2 billion.

Net Cash Used In Investing Activities

For the second quarter of 2021, our net cash used in investing activities was RMB6.4 billion, which was primarily attributed to the net change of short-term investments measured at fair value through profit or loss of RMB4.6 billion and the net change of long-term bank deposits of RMB3.1 billion, partially offset by proceeds from disposal of investments accounted for using the equity method of RMB1.4 billion.

Net Cash Used In Financing Activities

For the second quarter of 2021, our net cash used in financing activities was RMB2.5 billion, which was primarily attributed to the payments for shares repurchase of RMB4.2 billion and the net changes of borrowings of RMB1.3 billion, partially offset by the proceeds from fund partners of RMB3.4 billion.

Borrowings

As of March 31, 2021 and June 30, 2021, we had total borrowings of RMB21.0 billion and RMB19.3 billion, respectively.

Capital Expenditure

| | Unaudited | |
|---|---------------------------|----------------|
| | Three months ended | |
| | June 30, 2021 | March 31, 2021 |
| | (in millions of RMB) | |
| Capital expenditures | 697.8 | 1,131.0 |
| Placement of long-term investments ⁽¹⁾ | 2,833.7 | 2,138.2 |
| Total | 3,531.5 | 3,269.2 |

Note:

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

Off-Balance Sheet Commitments and Arrangements

As of June 30, 2021, except for financial guarantee contracts, we had not entered into any significant off-balance sheet commitments or arrangements.

Future Plans for Material Investments and Capital Assets

As of June 30, 2021, we did not have other plans for material investments and capital assets.

Significant Investments

The Group did not make or hold any significant investments (including any investment in an investee company with a value of 5 percent or more of the Group's total assets as of June 30, 2021) during the six months ended June 30, 2021.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In the second quarter of 2021, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As of June 30, 2021, we had 26,110 full-time employees, 24,028 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. We expect to continue to increase our headcount in mainland China and our key target global markets. As of June 30, 2021, our research and development personnel, totaling 11,062 employees, were staffed across our various departments.

One of the factors of 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 June 30, 2021, 13,707 employees held share-based awards. The total remuneration expenses, including share-based compensation expenses, in the second quarter of 2021 were RMB3.6 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 and other regions such as India, and are exposed to foreign exchange risk arising from the exposure to various currencies, primarily with respect to the United States Dollar. Therefore, foreign exchange risk primarily arises from the recognized assets and liabilities in our subsidiaries when receiving or expecting to receive foreign currencies from, or paying or expecting to pay foreign currencies to overseas business partners.

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

Pledge of Assets

As of June 30, 2021, we pledged a restricted deposit of RMB2,312.7 million, compared with RMB2,073.9 million as of March 31, 2021. We also had pledged certain buildings, construction in progress and land use right for borrowings.

Contingent Liabilities

We did not have any material contingent liabilities as of June 30, 2021 and March 31, 2021.

CONDENSED FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the three months and six months ended June 30, 2021

(Expressed in Renminbi (“RMB”))

| | Note | Unaudited Three months ended June 30, | | Unaudited Six months ended June 30, | |
|---|------|---|-----------------|---|-----------------|
| | | 2021 RMB'000 | 2020 RMB'000 | 2021 RMB'000 | 2020 RMB'000 |
| Revenue | 2 | 87,788,960 | 53,537,805 | 164,671,123 | 103,239,972 |
| Cost of sales | 2, 3 | (72,640,918) | (45,836,359) | (135,361,850) | (87,980,069) |
| Gross profit | | 15,148,042 | 7,701,446 | 29,309,273 | 15,259,903 |
| Selling and marketing expenses | 3 | (5,680,659) | (3,223,676) | (9,844,134) | (5,848,549) |
| Administrative expenses | 3 | (1,150,336) | (836,426) | (2,137,988) | (1,617,959) |
| Research and development expenses | 3 | (3,064,176) | (1,958,272) | (6,076,167) | (3,829,256) |
| Fair value changes on investments measured at fair value through profit or loss | 4 | 4,165,419 | 2,366,188 | 6,228,626 | 2,714,034 |
| Share of net (losses)/profits of investments accounted for using the equity method | | (26,193) | 892,645 | (17,204) | 1,023,383 |
| Other income | | 234,612 | 183,051 | 386,665 | 256,778 |
| Other gains/(losses), net | | 1,099,047 | 288,071 | 1,034,348 | (222,119) |
| Operating profit | | 10,725,756 | 5,413,027 | 18,883,419 | 7,736,215 |
| Finance income | | 322,651 | 221,794 | 597,859 | 513,740 |
| Finance costs | | (1,369,865) | (767,025) | (735,856) | (928,070) |
| Profit before income tax | | 9,678,542 | 4,867,796 | 18,745,422 | 7,321,885 |
| Income tax expenses | | (1,415,234) | (374,323) | (2,693,207) | (668,518) |
| Profit for the period | | 8,263,308 | 4,493,473 | 16,052,215 | 6,653,367 |
| Attributable to: | | | | | |
| — Owners of the Company | | 8,268,477 | 4,498,128 | 16,061,366 | 6,661,643 |
| — Non-controlling interests | | (5,169) | (4,655) | (9,151) | (8,276) |
| | | 8,263,308 | 4,493,473 | 16,052,215 | 6,653,367 |
| Earnings per share (expressed in RMB per share): | | | | | |
| Basic | | 0.332 | 0.189 | 0.642 | 0.279 |
| Diluted | | 0.323 | 0.183 | 0.625 | 0.271 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months and six months ended June 30, 2021

(Expressed in RMB)

| Note | Unaudited Three months ended June 30, | | Unaudited Six months ended June 30, | |
|--|---|-----------------|---|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 | 2021 RMB'000 | 2020 RMB'000 |
| Profit for the period | 8,263,308 | 4,493,473 | 16,052,215 | 6,653,367 |
| Other comprehensive (loss)/income: | | | | |
| <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 | 666 | (6,453) | (54,551) | 16,983 |
| Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate | — | (4,773) | — | (4,773) |
| Net (losses)/gains from changes in fair value of financial assets at fair value through other comprehensive income | (5,861) | 2,101 | (2,146) | 2,101 |
| Currency translation differences | (262,223) | 27,778 | (165,059) | 36,123 |
| <i>Item that will not be reclassified subsequently to profit or loss</i> | | | | |
| Currency translation differences | (842,332) | (45,891) | (483,624) | 439,556 |
| Other comprehensive (loss)/income for the period, net of tax | (1,109,750) | (27,238) | (705,380) | 489,990 |
| Total comprehensive income for the period | 7,153,558 | 4,466,235 | 15,346,835 | 7,143,357 |
| Attributable to: | | | | |
| — Owners of the Company | 7,162,807 | 4,470,625 | 15,358,957 | 7,145,858 |
| — Non-controlling interests | (9,249) | (4,390) | (12,122) | (2,501) |
| | 7,153,558 | 4,466,235 | 15,346,835 | 7,143,357 |

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2021

(Expressed in RMB)

| | Note | Unaudited As of June 30, 2021 RMB'000 | Audited As of December 31, 2020 RMB'000 |
|---|------|---|---|
| Assets | | | |
| Non-current assets | | | |
| Property and equipment | | 6,987,166 | 6,305,657 |
| Intangible assets | | 3,689,028 | 4,265,619 |
| Investments accounted for using the equity method | | 14,008,708 | 12,781,995 |
| Long-term investments measured at fair value through profit or loss | 4 | 43,877,254 | 35,215,319 |
| Deferred income tax assets | | 1,578,712 | 2,011,072 |
| Long-term bank deposits | | 16,536,932 | 9,608,677 |
| Long-term investments measured at amortized cost | 4 | 360,814 | 232,798 |
| Other non-current assets | | 9,055,203 | 6,975,851 |
| | | <u>96,093,817</u> | <u>77,396,988</u> |
| Current assets | | | |
| Inventories | 6 | 56,801,934 | 41,670,719 |
| Trade receivables | 5 | 14,621,462 | 10,161,019 |
| Loan receivables | | 8,675,403 | 8,919,088 |
| Prepayments and other receivables | | 24,152,596 | 16,181,520 |
| Bills receivables measured at fair value through other comprehensive income | | 140,000 | 200,000 |
| Short-term investments measured at fair value through other comprehensive income | 4 | 843,835 | 797,456 |
| Short-term investments measured at amortized cost | 4 | 2,040,939 | — |
| Short-term investments measured at fair value through profit or loss | 4 | 27,410,872 | 22,376,387 |
| Short-term bank deposits | | 31,448,974 | 17,598,946 |
| Restricted cash | | 2,312,707 | 3,625,257 |
| Cash and cash equivalents | | 31,881,040 | 54,752,443 |
| | | <u>200,329,762</u> | <u>176,282,835</u> |
| Total assets | | <u><u>296,423,579</u></u> | <u><u>253,679,823</u></u> |

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2021

(Expressed in RMB)

| | Note | Unaudited As of June 30, 2021 RMB'000 | Audited As of December 31, 2020 RMB'000 |
|---|------|---|---|
| Equity and liabilities | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 408 | 409 |
| Reserves | | <u>135,766,982</u> | <u>123,691,287</u> |
| | | <u>135,767,390</u> | <u>123,691,696</u> |
| Non-controlling interests | | <u>269,379</u> | <u>321,819</u> |
| Total equity | | <u><u>136,036,769</u></u> | <u><u>124,013,515</u></u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 7 | 13,262,146 | 10,634,806 |
| Deferred income tax liabilities | | 415,968 | 300,556 |
| Warranty provision | | 971,098 | 802,590 |
| Other non-current liabilities | | <u>14,767,197</u> | <u>10,001,428</u> |
| | | <u>29,416,409</u> | <u>21,739,380</u> |
| Current liabilities | | | |
| Trade payables | 8 | 91,373,987 | 72,198,856 |
| Other payables and accruals | | 16,848,688 | 13,619,655 |
| Advance from customers | | 11,913,277 | 11,999,086 |
| Borrowings | 7 | 6,051,582 | 6,961,937 |
| Income tax liabilities | | 1,381,699 | 674,298 |
| Warranty provision | | <u>3,401,168</u> | <u>2,473,096</u> |
| | | <u>130,970,401</u> | <u>107,926,928</u> |
| Total liabilities | | <u><u>160,386,810</u></u> | <u><u>129,666,308</u></u> |
| Total equity and liabilities | | <u><u>296,423,579</u></u> | <u><u>253,679,823</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2021

(Expressed in RMB)

| | Unaudited | |
|---|---------------------------|--------------------|
| | Six months ended June 30, | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Net cash generated from/(used in) operating activities | 8,284,324 | (3,926,247) |
| Net cash used in investing activities | (31,987,329) | (4,211,760) |
| Net cash generated from financing activities | 1,070,090 | 4,793,374 |
| Net decrease in cash and cash equivalents | (22,632,915) | (3,344,633) |
| Cash and cash equivalents at the beginning of the period | 54,752,443 | 25,919,861 |
| Effects of exchange rate changes on cash and cash equivalents | (238,488) | 268,088 |
| Cash and cash equivalents at end of the period | 31,881,040 | 22,843,316 |

1 Basis of preparation

The condensed consolidated interim financial information comprises the condensed consolidated balance sheet as of June 30, 2021, the condensed consolidated income statements and the condensed consolidated statements of comprehensive income for the three-month and six-month periods then ended, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**Interim Financial Information**”). The Interim Financial Information is presented in RMB, unless otherwise stated.

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

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. The Interim Financial Information should be read in conjunction with the annual audited financial statements of the Group for the year ended December 31, 2020 which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) by the Group as set out in the 2020 annual report of the Company dated March 24, 2021 (the “**2020 Financial Statements**”).

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020, as described in the 2020 Financial Statements, except for the adoption of certain amended standards which has had no significant impact on the results and the financial position of the Group.

2 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. There were no material inter-segment sales during the three months and six months ended June 30, 2021 and 2020. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

The segment results for the three months and six months ended June 30, 2021 and 2020 are as follows:

| | Three months ended June 30, 2021 | | | | | |
|--------------------|---|---------------------------------------|--------------------------|----------------|----------------|--|
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| (Unaudited) | | | | | | |
| Segment revenues | 59,088,963 | 20,734,693 | 7,033,487 | 931,817 | 87,788,960 | |
| Cost of sales | (52,095,546) | (17,992,268) | (1,819,718) | (733,386) | (72,640,918) | |
| Gross profit | 6,993,417 | 2,742,425 | 5,213,769 | 198,431 | 15,148,042 | |
| | | Three months ended June 30, 2020 | | | | |
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| (Unaudited) | | | | | | |
| Segment revenues | 31,627,549 | 15,252,868 | 5,907,621 | 749,767 | 53,537,805 | |
| Cost of sales | (29,336,590) | (13,515,173) | (2,347,499) | (637,097) | (45,836,359) | |
| Gross profit | 2,290,959 | 1,737,695 | 3,560,122 | 112,670 | 7,701,446 | |
| | | Six months ended June 30, 2021 | | | | |
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| (Unaudited) | | | | | | |
| Segment revenues | 110,579,946 | 38,977,960 | 13,604,335 | 1,508,882 | 164,671,123 | |
| Cost of sales | (96,952,930) | (33,583,000) | (3,635,837) | (1,190,083) | (135,361,850) | |
| Gross profit | 13,627,016 | 5,394,960 | 9,968,498 | 318,799 | 29,309,273 | |
| | | Six months ended June 30, 2020 | | | | |
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| (Unaudited) | | | | | | |
| Segment revenues | 61,952,272 | 28,237,076 | 11,808,317 | 1,242,307 | 103,239,972 | |
| Cost of sales | (57,208,924) | (24,758,105) | (4,876,643) | (1,136,397) | (87,980,069) | |
| Gross profit | 4,743,348 | 3,478,971 | 6,931,674 | 105,910 | 15,259,903 | |

For the three months and six months ended June 30, 2021 and 2020, the geographical information on the total revenues is as follows:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---------------------------------|-----------------------------|-------------|--------------------------|------|---------------------------|-------------|---------------------------|------|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| | (Unaudited) | | (Unaudited) | | (Unaudited) | | (Unaudited) | |
| Mainland China | 44,150,041 | 50.3 | 29,509,195 | 55.1 | 83,623,755 | 50.8 | 54,379,239 | 52.7 |
| Rest of the world (Note (a)) | 43,638,919 | 49.7 | 24,028,610 | 44.9 | 81,047,368 | 49.2 | 48,860,733 | 47.3 |
| | <u>87,788,960</u> | | <u>53,537,805</u> | | <u>164,671,123</u> | | <u>103,239,972</u> | |

Note:

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

3 Expenses by nature

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-------------|---------------------------|-------------|
| | 2021 | 2020 | 2021 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Cost of inventories sold and royalty fees | 68,385,690 | 41,487,524 | 127,548,414 | 79,858,191 |
| Provision for impairment of inventories | 621,761 | 1,097,450 | 938,879 | 1,506,789 |
| Employee benefit expenses | 3,572,379 | 2,171,783 | 6,955,690 | 4,381,704 |
| Depreciation of property and equipment, right-of-use assets and investment properties | 431,658 | 250,860 | 791,353 | 480,552 |
| Amortization of intangible assets | 296,382 | 122,256 | 594,017 | 244,484 |
| Promotion and advertising expenses | 2,085,949 | 1,068,606 | 3,218,610 | 1,920,378 |
| Content fees to game developers and video providers | 689,034 | 555,094 | 1,372,486 | 1,244,028 |
| Credit loss allowance for loan receivables | 7,909 | 691,763 | 66,462 | 1,183,317 |
| Consultancy and professional service fees | 300,132 | 224,610 | 587,687 | 418,820 |
| Cloud service, bandwidth and server custody fees | 470,554 | 464,190 | 1,044,336 | 918,102 |
| Warranty expenses | 1,325,411 | 684,410 | 2,397,937 | 1,322,288 |

4 Investments

| | As of June 30, 2021 RMB'000 (Unaudited) | As of December 31, 2020 RMB'000 (Audited) |
|---|---|---|
| Current assets | | |
| Short-term investments measured at | | |
| — Amortized cost | 2,040,939 | — |
| — Fair value through other comprehensive income | 843,835 | 797,456 |
| — Fair value through profit or loss | 27,410,872 | 22,376,387 |
| | <u>30,295,646</u> | <u>23,173,843</u> |
| Non-current assets | | |
| Long-term investments measured at amortized cost | 360,814 | 232,798 |
| Long-term investments measured at fair value through profit or loss | | |
| — Equity investments | 19,946,228 | 13,969,457 |
| — Preferred shares investments | 23,931,026 | 21,245,862 |
| | <u>44,238,068</u> | <u>35,448,117</u> |

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|------------------|---------------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Fair value changes on equity investments | 3,538,283 | 1,778,648 | 4,439,088 | 2,164,496 |
| Fair value changes on preferred shares investments | 473,173 | 430,153 | 1,422,700 | 274,607 |
| Fair value changes on short-term investments measured at fair value through profit or loss | 153,963 | 157,387 | 366,838 | 274,931 |
| | <u>4,165,419</u> | <u>2,366,188</u> | <u>6,228,626</u> | <u>2,714,034</u> |

5 Trade receivables

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

| | As of June 30, 2021 RMB'000 (Unaudited) | As of December 31, 2020 RMB'000 (Audited) |
|-----------------------------|---|---|
| Trade receivables | | |
| Up to 3 months | 12,955,892 | 9,400,187 |
| 3 to 6 months | 1,225,438 | 534,660 |
| 6 months to 1 year | 372,620 | 234,844 |
| 1 to 2 years | 162,309 | 110,291 |
| Over 2 years | 103,883 | 81,797 |
| | <u>14,820,142</u> | <u>10,361,779</u> |
| Less: credit loss allowance | <u>(198,680)</u> | <u>(200,760)</u> |
| | <u>14,621,462</u> | <u>10,161,019</u> |

6 Inventories

| | As of June 30, 2021 RMB'000 (Unaudited) | As of December 31, 2020 RMB'000 (Audited) |
|--------------------------------|---|---|
| Raw materials | 26,659,515 | 15,684,698 |
| Finished goods | 21,596,561 | 17,909,963 |
| Work in progress | 3,889,970 | 4,135,024 |
| Spare parts | 2,744,031 | 1,967,593 |
| Others | 3,165,601 | 3,199,153 |
| | <u>58,055,678</u> | <u>42,896,431</u> |
| Less: provision for impairment | <u>(1,253,744)</u> | <u>(1,225,712)</u> |
| | <u>56,801,934</u> | <u>41,670,719</u> |

7 Borrowings

| | As of June 30, 2021 RMB'000 (Unaudited) | As of December 31, 2020 RMB'000 (Audited) |
|--|--|---|
| Included in non-current liabilities | | |
| Asset-backed securities | — | 465,000 |
| Secured borrowings | 1,603,935 | 1,594,936 |
| Unsecured borrowings | 7,560,717 | 4,530,856 |
| Convertible bonds | 4,097,494 | 4,044,014 |
| | <u>13,262,146</u> | <u>10,634,806</u> |
| Included in current liabilities | | |
| Asset-backed securities | 1,327,962 | 3,589,629 |
| Fund raised through trusts | 228,118 | 547,500 |
| Secured borrowings | 505,066 | 460,257 |
| Unsecured borrowings | 3,990,436 | 2,364,551 |
| | <u>6,051,582</u> | <u>6,961,937</u> |

8 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of June 30, 2021 and December 31, 2020, 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 June 30, 2021 RMB'000 (Unaudited) | As of December 31, 2020 RMB'000 (Audited) |
|--------------------|--|---|
| Up to 3 months | 75,245,432 | 68,909,758 |
| 3 to 6 months | 9,685,945 | 2,312,665 |
| 6 months to 1 year | 6,044,536 | 873,537 |
| 1 to 2 years | 298,132 | 34,200 |
| Over 2 years | 99,942 | 68,696 |
| | <u>91,373,987</u> | <u>72,198,856</u> |

OTHER INFORMATION

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

During the six months ended June 30, 2021 and up to the date of this announcement, the Company repurchased a total of 207,939,200 Class B Shares (the “**Shares Repurchased**”) of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at an aggregate consideration (including transaction cost) of HK\$5,386,553,815. Particulars of the Shares Repurchased are as follows:

| Month of Repurchase | No. of Shares Repurchased | Price paid per share | | Aggregate Consideration (HK\$) |
|---------------------|---------------------------|----------------------|---------------|--------------------------------|
| | | Highest (HK\$) | Lowest (HK\$) | |
| March | <u>19,307,600</u> | 26.20 | 25.50 | <u>498,900,661</u> |
| April | <u>173,381,600</u> | 27.20 | 24.60 | <u>4,494,026,504</u> |
| July | <u>15,250,000</u> | 26.40 | 25.20 | <u>393,626,650</u> |
| Total | <u><u>207,939,200</u></u> | | | <u><u>5,386,553,815</u></u> |

As at the date of this announcement, the number of Class B Shares in issue was reduced by 207,939,200 shares as a result of the cancellation of the Shares Repurchased. Upon cancellation of the Shares Repurchased, the weighted voting rights (“**WVR**”) beneficiaries of the Company simultaneously reduced their WVR in the Company proportionately by way of converting their Class A ordinary shares (“**Class A Shares**”) into Class B Shares on a one-to-one ratio pursuant to Rule 8A.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under Rules 8A.13 and 8A.15 of the Listing Rules.

The Shares Repurchased in March 2021 and April 2021 were subsequently cancelled on June 3, 2021. A total of 35,794,228 Class A Shares were converted into Class B Shares on a one-to-one ratio on June 3, 2021, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 32,236,626 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 3,557,602 Class A Shares. The Shares Repurchased in July 2021 were subsequently cancelled on August 20, 2021. A total of 2,831,101 Class A Shares were converted into Class B Shares on a one-to-one ratio on August 20, 2021, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 2,549,717 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 281,384 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 six months ended June 30, 2021 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 A.2.1 of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules, the Company has complied with all the code provisions set out in the CG Code during the six months ended June 30, 2021.

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

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2021. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, PricewaterhouseCoopers.

Material Litigation

As of June 30, 2021, the Company was not involved in any material litigation or arbitration nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2021.

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. The Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within about 2 years.

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. The Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within about 2 years.

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

The net proceeds received by the Company from the 2031 Bonds and Green Bonds were approximately US\$789.0 million and US\$392.8 million respectively. The Company intends to use the estimated net proceeds from 2031 Bonds for general corporate purposes, and use the estimated net proceeds from Green Bonds 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. The Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within about 30 years.

Events after June 30, 2021

On July 14, 2021, Xiaomi Best Time International Limited issued 2031 Bonds and Green Bonds. For further details, please refer to "Issuance of Debt Securities" above.

As of the date of this announcement, the transaction that the Company entered into a share purchase agreement with shareholders of Zimi International Incorporation ("**Zimi**") is closed. Zimi becomes a wholly-owned subsidiary of the Group.

As of the date of this announcement, the Company entered into the share purchase agreements with the relevant parties, pursuant to which, the Company conditionally agreed to acquire, and each of the ordinary shareholder vendors and preferred shareholder vendors has conditionally agreed to sell 125,494,231 ordinary shares and 50,854,701 preferred shares representing 71.16% and 28.84% respectively of the entire issued share capital of the Deepmotion Tech Limited (“**Deepmotion**”, an autonomous driving technology company). The total consideration for the acquisition is approximately US\$77.37 million. The closing of the above share purchase agreements (the “Closing”) shall be subject to the fulfillment or where applicable waiver of certain closing conditions. Upon Closing, Deepmotion will become a wholly-owned subsidiary of the Group. As of the date of this announcement, this transaction has not yet closed.

Save as disclosed in this announcement, there was no other significant events that might affect the Group after June 30, 2021 and up to the date of this announcement.

Publication of the Interim Results Announcement and Interim Report

This interim 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 interim 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, August 25, 2021

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, Prof. Tong Wai Cheung Timothy and Mr. Wong Shun Tak as Independent Non-executive Directors.