Stock Codes: 1810 (HKD counter) and 81810 (RMB counter)

XIAOMI CORPORATION

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

2023 ANNUAL REPORT

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

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


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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive Director

Liu Qin （劉芹）

Independent Non-Executive Directors

Chen Dongsheng （陳東升）
Wong Shun Tak （王舜德）
Tong Wai Cheung Timothy（唐偉章）(resigned with effect from January 8, 2024)
Cai Jinqing（蔡金青） (appointed with effect from January 8, 2024)

Audit Committee

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

Remuneration Committee

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

Nomination Committee

Wong Shun Tak （王舜德）*(Chairman)* (appointed with effect from January 8, 2024)
Lin Bin （林斌）
Tong Wai Cheung Timothy（唐偉章）*(Chairman)* (resigned with effect from January 8, 2024)
Cai Jinqing （蔡金青） (appointed with effect from January 8, 2024)

Corporate Governance Committee

Chen Dongsheng （陳東升）*(Chairman)*
Wong Shun Tak （王舜德）
Tong Wai Cheung Timothy（唐偉章）(resigned with effect from January 8, 2024)
Cai Jinqing （蔡金青）(appointed with effect from January 8, 2024)

Joint Company Secretaries

So Ka Man （蘇嘉敏）
Liu Hao （劉灝）

Authorized Representatives

Lin Bin （林斌）
So Ka Man （蘇嘉敏）

Auditor

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

Registered Office

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

Head Office and Principal Place of Business in Mainland China

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

Principal Place of Business in Hong Kong

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

Hong Kong Legal Advisor

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

Compliance Advisor

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

Hong Kong Share Registrar

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

Principal Share Registrar and Transfer Office

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

Principal Banker

Shouti Technology Finance Sub-Branch,
Beijing Branch, China Merchants Bank

Stock Codes

1810 (HKD counter) and 81810 (RMB counter)

Company Website

www.mi.com

FIVE-YEAR FINANCIAL SUMMARY

Condensed consolidated statements of comprehensive income

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	**270,970,141**	280,044,016	328,309,145	245,865,633	205,838,682
Gross profit	**57,476,239**	47,577,190	58,260,941	36,751,862	28,554,033
Operating profit	**20,008,670**	2,816,498	26,028,664	24,034,729	11,760,217
Profit before income tax	**22,011,047**	3,933,956	24,417,033	21,633,432	12,162,646
Profit for the year	**17,474,196**	2,502,568	19,283,235	20,312,710	10,102,950
Profit attributable to owners of the company	**17,475,173**	2,474,030	19,339,321	20,355,504	10,044,164
Total comprehensive income for the year	**18,510,061**	6,247,923	17,879,021	17,949,889	10,543,383
Total comprehensive income attributable to owners of the Company	**18,507,548**	6,201,669	17,940,990	17,986,452	10,472,914
Non-IFRS Measure: Adjusted net profit	**19,272,754**	8,518,007	22,039,474	13,006,363	11,532,296

Condensed consolidated balance sheets

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Assets					
Non-current assets	**125,194,739**	113,092,416	107,040,469	77,396,988	46,090,121
Current assets	**199,052,700**	160,414,795	185,851,401	176,282,835	137,539,086
Total assets	**324,247,439**	273,507,211	292,891,870	253,679,823	183,629,207
Equity and liabilities					
Equity attributable to owners of the Company	**163,995,489**	143,658,458	137,212,906	123,691,696	81,330,574
Non-controlling interests	**266,279**	264,602	219,590	321,819	327,102
Total equity	**164,261,768**	143,923,060	137,432,496	124,013,515	81,657,676
Non-current liabilities	**44,398,075**	39,956,618	39,731,903	21,739,380	9,790,826
Current liabilities	**115,587,596**	89,627,533	115,727,471	107,926,928	92,180,705
Total liabilities	**159,985,671**	129,584,151	155,459,374	129,666,308	101,971,531
Total equity and liabilities	**324,247,439**	273,507,211	292,891,870	253,679,823	183,629,207

xiaomi

Year ended December 31, 2023

Total revenue	Smartphone revenue	IoT and lifestyle products revenue	Internet services revenue
271.0 RMB billion	157.5 RMB billion	80.1 RMB billion	30.1 RMB billion

Overseas revenue	Smartphone shipments	Connected IoT devices[1]	MAU[2]
44.9% of total revenue	145.6 million units	739.7 million units	641.2 million

Notes:

(1) Connected IoT devices as of December 31, 2023, excluding smartphones, tablets, and laptops

(2) In December 2023, including smartphones and tablets

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended December 31, 2023 to the shareholders.

Business Review and Outlook

1. Overall performance

Throughout 2023, we diligently executed our key operating strategy of "dual emphasis on scale and profitability". As we maintained our industry-leading position globally, we emphasized on enhancing our capabilities, optimizing our operating efficiency and driving improvements in profitability. In 2023, our adjusted net profit increased 126.3% year-over-year to RMB19.3 billion, and our total revenue was RMB271.0 billion, a slight decrease of 3.2% year-over-year. Our adjusted net profit included RMB6.7 billion in expenses related to our smart Electric Vehicle ("**EV**") business and other new initiatives[1].

1 Excluding share-based compensation expenses (SBC) related to smart EV and other new initiatives of RMB0.8 billion for the year.

In October 2023, we upgraded our corporate strategy to "Human x Car x Home" and unveiled our new operating system, "**Xiaomi HyperOS**". According to Canalys, our global smartphone shipments ranked third in 2023, the third consecutive year that we were ranked among the top three smartphone brands globally, with a market share of 12.8%. In December 2023, our global monthly active users ("**MAU**")[2] reached 641.2 million, a historic high and an increase of 10.2% year-over-year. As of December 31, 2023, the number of connected IoT devices on our AIoT platform (excluding smartphones, tablets and laptops) increased to 739.7 million, up 25.5% year-over-year. As part of our "Human x Car x Home" strategy, we officially unveiled our first EV product, the *Xiaomi SU7 Series,* in December 2023.

In August 2023, we introduced our new goal for 2020–2030, which was to invest in foundational core technologies and to become a global leader in the evolving realm of cutting-edge technologies. In 2023, our research and development expenses were RMB19.1 billion, up 19.2% year-over-year. As of December 31, 2023, we had 17,800 research and development personnel, accounting for 53% of our employees. In addition, we continued to extend our intellectual property capabilities to foster innovation. As of December 31, 2023, we had obtained more than 37,000 patents worldwide. In 2023, we unveiled our results in various areas, including our new operating system Xiaomi HyperOS, our proprietary hinge used in *Xiaomi MIX Fold 3, Xiaomi Shield Glass* used in *Xiaomi 14 Pro* and *Xiaomi 14 Ultra,* as well as Xiaomi EV's five core technologies. In February 2024, we also officially launched the newly built Xiaomi Smart Factory, with an annual smartphone production capacity of approximately ten million units.

In 2023, we continued to make significant progress in our smartphone premiumization strategy. The *Xiaomi 14 Series*, our flagship smartphone launched in October 2023, garnered widespread acclaim for its leading-edge technology, exquisite design, exceptional imaging, and excellent user experience. In terms of shipments, according to third-party data, our market share of smartphone sales in the RMB4,000–RMB6,000 price segment in mainland China reached 16.9% in 2023, up by 9.2 percentage points year-over-year. According to third-party data, in mainland China, the proportion of premium smartphone[3] shipment represented more than 20% of our total smartphone shipments in 2023. In terms of pricing, in 2023, the average selling price ("**ASP**") of our smartphones in mainland China increased by over 19% year-over-year, hitting a record high.

As we steadily advanced our new retail operating strategy of "storefront integration" in mainland China in 2023, we significantly improved the efficiency of our offline retail stores, gaining higher market share. According to third-party data, our market share of smartphone shipments through offline channels in mainland China was 8.4% in 2023, up by 1.8 percentage points year-over-year.

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2 Including smartphones and tablets.

3 Premium smartphones in mainland China are models with retail prices at or above RMB3,000.

CHAIRMAN'S STATEMENT

We continue to expand our global footprint. In 2023, our revenue from overseas markets reached RMB121.8 billion, accounting for 44.9% of our total revenue. According to Canalys, in 2023, we witnessed significant smartphone market share growth in the Middle East, Latin America, and Africa in 2023, up 1.3%, 1.2% and 2.4% year-over-year respectively in these regions. Our smartphone shipments ranked No. 2 in the Middle East, and No. 3 in Latin America, Africa and Southeast Asia. According to Canalys, our smartphone shipments ranked among the top three across 51 countries and regions globally and ranked among the top five across 65 countries and regions globally in 2023.

In 2023, our key AIoT products achieved remarkable success both in mainland China as well as globally. Our smart large home appliances gained both positive customer reviews and sales growth, and revenue from the segment increased by nearly 40% year-over-year in 2023. According to Canalys, in 2023, the ranking of our tablet shipments rose to No. 3 in mainland China, and our shipments of wearable bands[4] ranked No. 2 both in mainland China and globally.

In December 2023, we held our Xiaomi EV Technology Launch event, unveiling Xiaomi EV's five core self-developed technologies — E-Motor, Battery, Die-Casting, Smart Cabin, and Autonomous Driving. We also officially debuted the *Xiaomi SU7* Series. Positioned as a "full-size high-performance eco-technology sedan," *Xiaomi SU7* Series boasts a captivating aesthetic design and ultra-high performance. *Xiaomi SU7 Max*, equipped with dual motors for all-wheel drive, is turbocharged with a maximum horsepower of 673PS and a peak torque of 838N·m. With its zero-to-hundred acceleration of 2.78 seconds and a top speed of 265 km/h, the *Xiaomi SU7 Max* offers a CLTC[5] range of up to 800 km. Crafted with industry-leading safety design standards and engineered with passive, active, and battery safety mechanisms, among others, the *Xiaomi SU7* Series safeguards users with the utmost protection. The pricing of *Xiaomi SU7* Series was formally announced on March 28, 2024.

As we executed our operating strategy of "dual emphasis on scale and profitability" in 2023, we achieved record-high gross profit margin at the Group level, as well as in each of our business segments. In 2023, our gross profit margin reached 21.2%, an increase of 4.2 percentage points year-over-year. By segment, in 2023, the gross profit margin of our smartphone business reached 14.6%, an increase of 5.6 percentage points year-over-year. The gross profit margin of our IoT and lifestyle products reached 16.3%, an increase of 1.9 percentage points year-over-year. The gross profit margin of our internet services reached 74.2%, an increase of 2.4 percentage points year-over-year. Our annual adjusted net profit was RMB19.3 billion, an increase of 126.3% year-over-year. Sufficient cash reserves serve as a crucial foundation for the sustained development of both our core and new businesses. As of December 31, 2023, our cash resources[6] reached RMB136.3 billion, hitting a record high. We have also been actively repurchasing our shares in the open market, and we repurchased HKD1.5 billion, or 126.6 million shares, in 2023.

4 Wearable bands include basic bands, basic watches, and smart watches.

5 China Light-duty Vehicle Test Cycle.

6 Including but not limited to (i) cash and cash equivalents, (ii) restricted cash, (iii) short-term bank deposits, (iv) short-term investments measured at fair value through profit or loss, (v) short-term investments measured at amortized cost, (vi) long-term bank deposits and (vii) other investments included in long-term investments measured at fair value through profit or loss.

2. Smartphones

According to Canalys, in 2023, global smartphone shipments decreased by 4.3% year-over-year. In 2023, we maintained our No. 3 global smartphone shipment ranking with a 12.8% market share. In 2023, our smartphone revenue reached RMB157.5 billion, with our global smartphone shipments reaching 145.6 million units.

We are firmly committed to executing our dual-brand strategy. Under the Xiaomi brand, in August 2023, we unveiled the *Xiaomi MIX Fold 3* in mainland China, illustrating our persistent innovation in foldable smartphones. The *Xiaomi MIX Fold 3* features our proprietary hinge, which adopts a 3-element connecting rod structure and has up to 14 micro-hinges. The tightly stacked rotating mechanism is much slimmer, lighter and more reliable with enhanced durability. In October 2023, we unveiled the *Xiaomi 14* Series in mainland China. The world's first Snapdragon 8 Gen 3 Mobile Platform made its debut on the *Xiaomi 14* Series, meticulously integrated with Xiaomi HyperOS for outstanding performance. In February 2024, we unveiled the *Xiaomi 14 Ultra* in mainland China, which redefines mobile imaging with a holistic experience upgrade. *Xiaomi 14 Ultra* optics come equipped with a quad-camera with Leica Summilux optical lenses and a full range of focal lengths, featuring larger apertures for enhanced luminance. In terms of computational photography, *Xiaomi 14 Ultra* is powered by *Xiaomi AISP,* our first-ever AI large model computational photography platform, with an astounding computing power of 60 TOPS, providing image processing aptitudes for thorough integration of software and hardware. We are also advancing our smartphone premiumization strategy in the overseas markets. Just before the recently concluded MWC Barcelona 2024, we unveiled the *Xiaomi 14* and *Xiaomi 14 Ultra* Series with built-in Xiaomi HyperOS for global users. This marked the first-ever synchronized release of our premium flagship smartphones globally.

Since the launch of the Redmi brand, the global cumulative sales volume of our Redmi smartphones surpassed 1 billion units. In September 2023, we released the *Redmi Note 13* Series[7] in mainland China. *Redmi Note 13* and *Redmi Note 13 Pro+* are powered by the meticulously optimized MediaTek Dimensity 7200 Ultra and Dimensity 6080 mobile chipsets, fine-tuned by Redmi and MediaTek jointly, delivering exceptional performance while enhancing user experience across the board. In November 2023, we released the *Redmi K70 Series*[8] in mainland China. Fueled by the Snapdragon 8 Gen 3 Mobile Platform, the *Redmi K70 Pro* boasts our cutting-edge "ice-sealed cooling system". With Xiaomi HyperOS as its foundational architecture, fortified by an AI subsystem, it significantly enhances both overall performance and user experience. The sales volume of *Redmi K70* Series exceeded 600,000 units in the first five minutes[9].

7 Including *Redmi Note 13, Redmi Note 13 Pro, Redmi Note 13 Pro+* and *Redmi Note 13 Pro+ AAPE Limited Edition.*

8 Including *Redmi K70, Redmi K70 Pro, Redmi K70E* and *Redmi K70 Pro Champion Edition*.

9 Based on sales data recorded from 10:00 to 10:05 Beijing time on December 1, 2023.

CHAIRMAN'S STATEMENT

3. IoT and lifestyle products

In 2023, despite various macro challenges, our IoT and lifestyle products delivered year-over-year growth in both revenue and gross profit margin. In 2023, revenue from our IoT and lifestyle products was RMB80.1 billion, an increase of 0.4% year-over-year, and gross profit margin reached 16.3%, hitting a record high, up 1.9 percentage points year-over-year.

As of December 31, 2023, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 739.7 million, up 25.5% year-over-year; the number of users with five or more devices connected to our AIoT platform (excluding smartphones, tablets and laptops) reached 14.5 million, an increase of 25.3% year-over-year. In December 2023, the MAU of our Mi Home App grew to 85.8 million, an increase of 13.2% year-over-year.

According to All View Cloud ("**AVC**"), in 2023, our TV shipments ranked among the top five globally.

In 2023, our smart large home appliances sustained high growth momentum in sales. In the full year of 2023, our smart large home appliance revenue increased by nearly 40% year-over-year. Our air conditioner shipments exceeded 4.4 million units in 2023, up 49% year-over-year. Our refrigerator shipments for the year exceeded 2.0 million units, doubling year-over-year. Furthermore, in 2023, our washing machine shipments exceeded 1.3 million units, up 24% year-over-year.

In 2023, our tablet products achieved remarkable growth, with global tablet shipments exceeding 5 million units, an increase of more than 50% year-over-year. In particular, our annual tablet shipments in the overseas markets doubled year-over-year. According to Canalys, in 2023, the ranking of our tablet shipments rose to No. 3 in mainland China. In February 2024, we launched the *Xiaomi Pad 6S Pro 12.4*, the first tablet product with built-in Xiaomi HyperOS. Powered by the Snapdragon 8 Gen 2 flagship processor, featuring a stunning 12.4-inch 3K high-definition eye-protection display, *Xiaomi Pad 6S Pro 12.4* supports multi-screen color consistency within our ecosystem. It also pioneers Wi-Fi 7 high-speed connection technology on tablets and comes equipped with our revolutionary 120W HyperCharge, offering up to a 100% charge with its 10,000mAh battery in 35 minutes.

In 2023, we continued to maintain our leading edge in wearables. According to Canalys, in 2023, our wearable band shipments ranked No. 2 both in mainland China and in global markets, and our TWS earbud shipments ranked No. 2 in mainland China.

4. Internet services

In 2023, our internet services reached record highs in both revenue and gross profit margin. Our internet services revenue was RMB30.1 billion, an increase of 6.3% year-over-year. The gross profit margin of our internet services reached 74.2%, an increase of 2.4 percentage points year-over-year.

In 2023, our internet user base continued to expand. Our MAU globally and in mainland China both hit record highs. In December 2023, our global MAU reached 641.2 million, an increase of 10.2% year-over-year, while our MAU in mainland China reached 155.6 million, up 8.3% year-over-year. In December 2023, the global MAU of our smart TV[10] reached 66.0 million, an increase of 13.5% year-over-year.

In 2023, as we continued to optimize efficiency across our platform, our advertising revenue reached RMB20.5 billion, an increase of 11.2% year-over-year, setting a record high.

In 2023, alongside the advancement of our smartphone premiumization strategy, the number of active users and paying users of our gaming business continued to increase. Accordingly, we achieved solid growth in our gaming business. In 2023, our gaming revenue reached RMB4.4 billion, an increase of 7.0% year-over-year, setting a historic high.

In 2023, we continued to advance our globalization strategy. As we consistently broadened business alliances with valued partners, we reinforced our content distribution capabilities and elevated our monetization capabilities. In 2023, revenue from our overseas internet services increased 24.1% year-over-year to RMB8.4 billion, hitting a record high and accounting for 28.0% of our total internet services revenue, up 4.0 percentage points year-over-year.

5. Corporate Social Responsibility

We actively fulfill our corporate social responsibility and are deeply committed to driving low-carbon development, offering customers green, smart, and sustainable products and services. In August 2023, we pledged to achieve carbon neutrality in our own operations of our existing businesses along with 100% renewable energy utilization by 2040. In December 2023, we released our White Paper on Climate Action during the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28), detailing our zero-carbon philosophy and our approach to the zero-carbon transition.

In terms of corporate social responsibility, we continuously contributed to a better society in three key domains: poverty and disaster relief, talent development, and technology innovation. As for poverty and disaster relief, Beijing Xiaomi Foundation has cumulatively donated more than RMB162 million as of December 2023. In December 2023, Beijing Xiaomi Foundation donated RMB5 million to the earthquake-stricken areas in Gansu and Qinghai Province for relief efforts. For talent development, Xiaomi Scholarships program has covered 60 colleges and universities by the end of 2023, with a cumulative donation of RMB55 million. And Xiaomi Young Talents program has covered 30 colleges and universities, sponsoring more than 500 young teachers and

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

CHAIRMAN'S STATEMENT

researchers as of December 2023. For technology innovation, Xiaomi Innovation Joint Fund has cumulatively donated RMB108 million and supported 74 scientific projects as of December 2023. In March 2024, Beijing Xiaomi Foundation donated RMB100 million to the National Natural Science Foundation of China, supporting fundamental research projects for young students.

We have fully integrated environmental, social, and governance (ESG) management into our business operations and management. In January 2024, we announced the appointment of Ms. Cai Jinqing as the Company's first female board director. This represented a significant stride in our ongoing efforts to enhance our corporate management, fostering greater gender diversity within our board of directors, and further strengthening the sophistication of our corporate governance practices.

In 2023, our ESG initiatives were met with widespread acclaim globally. We were included in S&P Global's Sustainability Yearbook 2023 (China Edition) as an "Industry Mover", listed as one of China's Most Admired Companies 2023 by Fortune Magazine, named one of the "World's Best Employers" by Forbes for the third consecutive year, and honored with the Best ESG award in the Technology Hardware sector in Institutional Investor's 2023 Asia Pacific (Ex-Japan) Executive Team Awards, among others. In January 2024, in recognition of our outstanding sustainability practices and performance, we were awarded the "Gold Medal" in EcoVadis' sustainability rating, ranking in the top 3% globally within the industry[11] and our score increased to 73 from 53 in 2022.

Our Pledge

Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. To achieve this, as approved by our Board in May 2018, we pledged to our existing and potential users that starting from 2018, the Xiaomi Hardware Business ("**HB**"), including smartphones and IoT and lifestyle products, would have an overall net profit margin that would not exceed 5.0% per year. If the net margin exceeds 5.0%, we will return the excess above 5.0% to our users. In 2023, the overall net margin of our hardware business was less than 3%, fulfilling our pledge. (For the definition of hardware business net margin, please refer to Hardware Business Net Margin.)

Lei Jun
Chairman

Hong Kong
March 19, 2024

11 Manufacture of communication equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

The following table sets forth the comparative figures for the years ended December 31, 2023 and 2022:

	Year ended December 31,	
	2023	2022
	(RMB in millions)	
Revenue	270,970.1	280,044.0
Cost of sales	(213,493.9)	(232,466.8)
Gross profit	57,476.2	47,577.2
Research and development expenses	(19,097.7)	(16,028.1)
Selling and marketing expenses	(19,226.5)	(21,323.3)
Administrative expenses	(5,126.8)	(5,113.9)
Fair value changes on financial instruments measured at fair value through profit or loss	3,501.1	(1,662.0)
Share of net profits/(losses) of investments accounted for using the equity method	45.6	(400.1)
Other income	740.1	1,135.5
Other gains/(losses), net	1,696.7	(1,368.8)
Operating profit	20,008.7	2,816.5
Finance income, net	2,002.3	1,117.5
Profit before income tax	22,011.0	3,934.0
Income tax expenses	(4,536.8)	(1,431.4)
Profit for the year	17,474.2	2,502.6
Non-IFRS Measure: Adjusted net profit	19,272.8	8,518.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue decreased by 3.2% to RMB271.0 billion for the year ended December 31, 2023, compared to RMB280.0 billion for the year ended December 31, 2022. The following table sets forth our revenue by line of business for the year ended December 31, 2023 and the year ended December 31, 2022:

	Year ended December 31,			
	2023		2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	157,461.3	58.1%	167,217.2	59.7%
IoT and lifestyle products	80,107.7	29.6%	79,794.9	28.5%
Internet services	30,107.5	11.1%	28,321.4	10.1%
Others	3,293.6	1.2%	4,710.5	1.7%
Total revenue	270,970.1	100.0%	280,044.0	100.0%

Smartphones

Revenue from our smartphones segment decreased by 5.8% from RMB167.2 billion for the year ended December 31, 2022 to RMB157.5 billion for the year ended December 31, 2023, primarily due to decreases in both our smartphone shipments and ASP. Our smartphone shipments decreased by 3.3% from 150.5 million for the year ended December 31, 2022 to 145.6 million for the year ended December 31, 2023. According to Canalys, in 2023, global smartphone shipments decreased by 4.3% year-over-year. The ASP of our smartphones decreased by 2.7% from RMB1,111.3 per unit for the year ended December 31, 2022 to RMB1,081.7 per unit for the year ended December 31, 2023, primarily due to the enhanced efforts to clear our inventories in the overseas markets in the first half of 2023, and the strong growth of our shipments in emerging markets which carry lower ASP in the second half of 2023, partially offset by an increase in ASP in mainland China with the contribution from our premium smartphone shipments. In 2023, the ASP of our smartphones in mainland China increased by over 19% year-over-year, hitting a record high.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 0.4% from RMB79.8 billion for the year ended December 31, 2022 to RMB80.1 billion for the year ended December 31, 2023, primarily attributable to the increase in revenue of our smart large home appliances and tablets, partially offset by the decrease in revenue of smart TVs and laptops.

Revenue from our smart large home appliances increased by nearly 40% year-over-year, primarily attributable to the increased shipments of our air conditioners, refrigerators and washing machines in mainland China.

Our tablets maintained strong growth momentum year-over-year, primarily due to the increased revenue of *Xiaomi Pad 6* series tablets and *Redmi Pad SE* series tablets which we introduced globally in 2023.

Revenue from smart TVs and laptops decreased by 17.8% from RMB23.7 billion for the year ended December 31, 2022 to RMB19.5 billion for the year ended December 31, 2023, mainly due to the decrease in global shipments of smart TVs and laptops.

Internet services

Revenue from our internet services segment increased by 6.3% from RMB28.3 billion for the year ended December 31, 2022 to RMB30.1 billion for the year ended December 31, 2023, mainly due to the increase in revenue from our advertising business and gaming business, partially offset by the decreased revenue from other value-added services. The overseas internet services revenue increased by 24.1% from RMB6.8 billion for the year ended December 31, 2022 to RMB8.4 billion for the year ended December 31, 2023, accounting for 28.0% of our total internet services revenue, driven by the continued expansion of our overseas internet user base. Our global MAU increased by 10.2% from 582.1 million in December 2022 to 641.2 million in December 2023.

Others

Other revenue decreased by 30.1% from RMB4.7 billion for the year ended December 31, 2022 to RMB3.3 billion for the year ended December 31, 2023, primarily due to the decrease in revenue from the sales of buildings.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Our cost of sales decreased by 8.2% from RMB232.5 billion for the year ended December 31, 2022 to RMB213.5 billion for the year ended December 31, 2023. The following table sets forth our cost of sales by line of business for the year ended December 31, 2023 and the year ended December 31, 2022:

	Year ended December 31,			
	2023		2022	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	134,480.7	49.6%	152,248.4	54.4%
IoT and lifestyle products	67,029.1	24.7%	68,296.4	24.4%
Internet services	7,773.5	2.9%	7,974.4	2.8%
Others	4,210.6	1.6%	3,947.6	1.4%
Total cost of sales	213,493.9	78.8%	232,466.8	83.0%

Smartphones

Cost of sales related to our smartphones segment decreased by 11.7% from RMB152.2 billion for the year ended December 31, 2022 to RMB134.5 billion for the year ended December 31, 2023, mainly due to the decreased revenue of our smartphones, the decrease in cost of key components, as well as the decrease in inventory impairment provisions in the overseas markets.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment decreased by 1.9% from RMB68.3 billion for the year ended December 31, 2022 to RMB67.0 billion for the year ended December 31, 2023, primarily due to the decrease in revenue of smart TVs and laptops, partially offset by the increased revenue of our smart large home appliances and tablets.

Internet services

Cost of sales related to our internet services segment decreased by 2.5% from RMB8.0 billion for the year ended December 31, 2022 to RMB7.8 billion for the year ended December 31, 2023, primarily due to the decrease in costs from our advertising business and other value-added services.

Others

Cost of sales in our others segment increased by 6.7% from RMB3.9 billion for the year ended December 31, 2022 to RMB4.2 billion for the year ended December 31, 2023, primarily due to the increase in costs from sales of materials, partially offset by the decrease in revenue from sales of buildings.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 20.8% from RMB47.6 billion for the year ended December 31, 2022 to RMB57.5 billion for the year ended December 31, 2023. Our gross margin increased from 17.0% for the year ended December 31, 2022 to 21.2% for the year ended December 31, 2023.

The gross profit margin from our smartphones segment increased from 9.0% for the year ended December 31, 2022 to 14.6% for the year ended December 31, 2023, mainly due to the improved product mix, the decrease in cost of key components, as well as the decrease in inventory impairment provisions in the overseas markets.

The gross profit margin from our IoT and lifestyle products segment increased from 14.4% for the year ended December 31, 2022 to 16.3% for the year ended December 31, 2023, mainly due to higher revenue contribution and the increased gross profit margin of certain products with higher gross profit margin, such as tablets, certain lifestyle products and smart large home appliances.

The gross profit margin from our internet services segment increased from 71.8% for the year ended December 31, 2022 to 74.2% for the year ended December 31, 2023, mainly due to higher revenue contribution and the increased gross profit margin of our advertising business.

Research and Development Expenses

Our research and development expenses increased by 19.2% from RMB16.0 billion for the year ended December 31, 2022 to RMB19.1 billion for the year ended December 31, 2023, primarily due to the increase in research and development expenses related to our smart EV business and other new initiatives.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 9.8% from RMB21.3 billion for the year ended December 31, 2022 to RMB19.2 billion for the year ended December 31, 2023, primarily due to the decrease of logistics expenses.

Promotion and advertising expenses decreased by 3.3% from RMB7.2 billion for the year ended December 31, 2022 to RMB7.0 billion for the year ended December 31, 2023, primarily due to the decrease in marketing expenses.

Administrative Expenses

Our administrative expenses remained stable at RMB5.1 billion for the year ended December 31, 2023 compared to the year ended December 31, 2022, primarily due to the increase in administrative expense related to our smart EV business and other new initiatives and the credit loss allowance of receivables, partially offset by the decrease in professional service fees.

Fair Value Changes on Financial Instruments Measured at Fair Value Through Profit or Loss

Our fair value changes on financial instruments measured at fair value through profit or loss changed from a loss of RMB1.7 billion for the year ended December 31, 2022 to a gain of RMB3.5 billion for the year ended December 31, 2023, primarily due to the fair value gains of listed equity investments for the year ended December 31, 2023 compared to fair value losses of listed equity investments for the year ended December 31, 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 RMB400.1 million for the year ended December 31, 2022 to net profits of RMB45.6 million for the year ended December 31, 2023.

Other Income

Our other income decreased from RMB1.1 billion for the year ended December 31, 2022 to RMB0.7 billion for the year ended December 31, 2023, primarily due to the decrease of government grants.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from a net loss of RMB1.4 billion for the year ended December 31, 2022 to a net gain of RMB1.7 billion for the year ended December 31, 2023, primarily due to the increase of disposal gains of investments accounted for using the equity method and foreign exchange gains, as well as less impairment of investments accounted for using the equity method for the year ended December 31, 2023.

Finance Income, Net

Our net finance income increased from RMB1.1 billion for the year ended December 31, 2022 to RMB2.0 billion for the year ended December 31, 2023, primarily due to the rise of short-term deposit and US dollar deposit interest rate, partially offset by the change of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 217.0% from RMB1.4 billion for the year ended December 31, 2022 to RMB4.5 billion for the year ended December 31, 2023, primarily due to the significant increase of operating profit for the year ended December 31, 2023.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 598.3% from RMB2.5 billion for the year ended December 31, 2022 to RMB17.5 billion for the year ended December 31, 2023.

Adjusted Net Profit

Our adjusted net profit increased by 126.3% from RMB8.5 billion for the year ended December 31, 2022 to RMB19.3 billion for the year ended December 31, 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated Statement of Cash Flows

	Year ended December 31,	
	2023	2022
	(RMB in millions)	
Net cash generated from/(used in) operating activities[1]	41,300.5	(4,389.7)
Net cash (used in)/generated from investing activities	(35,169.1)	15,548.8
Net cash used in financing activities[1]	(505.0)	(7,854.8)
Net increase in cash and cash equivalents	5,626.4	3,304.3
Cash and cash equivalents at beginning of year	27,607.3	23,511.6
Effects of exchange rate changes on cash and cash equivalents	397.6	791.4
Cash and cash equivalents at end of year	33,631.3	27,607.3

Notes:

(1) Excluding (1) the change of trade payments related to the finance factoring business; (2) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech 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 RMB42.3 billion for the year ended December 31, 2023, and the net cash used in operating activities was RMB6.8 billion for the year ended December 31, 2022, respectively. Excluding the change of borrowings for the finance factoring business, the net cash used in financing activities was RMB2.3 billion for the year ended December 31, 2023, and the net cash used in financing activities was RMB3.8 billion for the year ended December 31, 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.

(2) The cash resources which the Group considered in cash management include 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 treasury investments included in long-term investments measured at fair value through profit or loss. As of December 31, 2023, the aggregate amount of cash resources of the Group was RMB136.3 billion.

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

For the year ended December 31, 2023, net cash generated from our operating activities amounted to RMB41.3 billion, representing cash generated from operations of RMB44.3 billion minus income tax paid of RMB3.0 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB22.0 billion, adjusted by an increase in trade payables of RMB11.1 billion, an increase in advance from customers of RMB4.0 billion, an increase in other payables and accruals of RMB3.1 billion, provision for impairment of inventories of RMB3.9 billion and share-based compensation of RMB3.4 billion, partially offset by fair value gains on financial instruments measured at fair value through profit or loss of RMB3.5 billion.

Net Cash Used In Investing Activities

For the year ended December 31, 2023, our net cash used in investing activities was RMB35.2 billion, which was primarily attributed to an increase of short-term bank deposits of RMB12.5 billion, an increase of long-term bank deposits of RMB11.0 billion, an increase of short-term investments measured at fair value through profit or loss of RMB10.4 billion.

Net Cash Used In Financing Activities

For the year ended December 31, 2023, our net cash used in financing activities was RMB0.5 billion, which was primarily attributed to the distribution to fund investors of RMB2.9 billion, the payments for shares repurchase of RMB1.4 billion, the payments of deferred consideration for acquisition of intangible assets of RMB1.4 billion, partially offset by an increase of borrowings of RMB4.8 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

	Year ended December 31,	
	2023	2022
	(RMB in millions)	
Capital expenditures[1]	7,662.1	5,799.6
Placement of long-term investments[2]	4,303.0	7,716.0
Total	11,965.1	13,515.6

Notes:

(1) Capital expenditures represents the purchase of property, plant and equipment, intangible assets, land use rights and payment of deferred consideration for acquisition of intangible assets.

(2) Placement for long-term investments represents equity investments, preferred share investments and other investments.

Non-IFRS Measure: Adjusted Net Profit

To supplement our consolidated results which are prepared and presented in accordance with all applicable IFRS Accounting Standards issued by the International Accounting Standards Board ("**IFRS Accounting Standards**"), 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 Accounting Standards. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS Accounting Standards 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 Accounting Standards. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies.

The following tables set forth reconciliations of the Group's Non-IFRS measures for the years ended December 31, 2023 and 2022 to the nearest measures prepared in accordance with IFRS Accounting Standards.

	Year Ended December 31, 2023						
		Adjustments					
	As reported	Share-based compensation	Net fair value changes on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Changes of value of financial liabilities to fund investors[3]	Income tax effects[4]	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the year	17,474,197	3,344,357	(2,746,397)	144,008	410,946	645,643	19,272,754
Net margin	6.4%						7.1%

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

Notes:

(1) Primarily includes fair value changes on equity investments and preferred shares investments deducting the accumulative 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 impact on loss of significant influence in an associate and, re-measurement of investments transferring from FAFVPL to investments using the equity method.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Hardware Business Net Margin

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

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

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

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

Note:

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

Liquidity, Financial Resources and Gearing

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

Other than the funds raised through our Global Offering in July 2018, the 2020 Placing and Subscription and the issuance of debt securities as described in "Issuance of Debt Securities" below, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB27.6 billion and RMB33.6 billion as of December 31, 2022 and December 31, 2023, respectively.

Our gearing ratio was -35.6% and -62.8%, which represented a net cash position, as of December 31, 2022 and December 31, 2023, respectively. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings less our cash and cash equivalents, restricted cash and short-term bank deposits. Total capital is calculated as total equity plus net debt.

Issuance of Debt Securities

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

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

As at December 31, 2023, no 2027 Bonds had been converted into new Shares.

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

Borrowings

As of December 31, 2022 and December 31, 2023, we had total borrowings of RMB23.6 billion and RMB27.9 billion, respectively.

Off-Balance Sheet Commitments and Arrangements

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

MANAGEMENT DISCUSSION AND ANALYSIS

Investments Held

As of December 31, 2023, we had invested in more than 430 companies with an aggregate book value of RMB67.1 billion, an increase of 5.0% year-over-year. In 2023, we recorded a net gain on disposal of investments (after tax) of RMB1.7 billion. The total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on December 31, 2023; (ii) book value of our stakes in unlisted investee companies accounted for using the equity method; and (iii) book value of long-term investments measured at fair value through profit or loss) would have reached RMB68.0 billion as of December 31, 2023.

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, 2023) during the year ended December 31, 2023.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

Employee and Remuneration Policy

As of December 31, 2023, we had 33,627 full-time employees, 31,537 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India. As of December 31, 2023, our research and development personnel, totaling 17,800 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, 2023, 11,861 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the year ended December 31, 2023 were RMB18.9 billion, representing an increase of 14.1% from RMB16.6 billion for the year ended December 31, 2022.

Foreign Exchange Risk

The transactions of our Company are denominated and settled in our functional currency, the United States dollar. Our Group's subsidiaries primarily operate in the People's Republic of China (the "**PRC**") and other regions such as India, and are exposed to foreign exchange risk arising from 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, 2023, our total restricted bank deposits amounted to RMB4.8 billion, compared with RMB4.0 billion as of December 31, 2022.

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2023. Further details of the contingencies are set out in Note 37 to the consolidated financial statements.

DIRECTOR'S REPORT

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

Principal Activities

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

Business Review

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

Subsidiaries

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

Property, plant and equipment

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

Bank Loans and Borrowings

Particulars of bank loans and other borrowings of the Group as of December 31, 2023 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 34 to the consolidated financial statements.

Donation

During the Reporting Period, the Group made charitable donations of approximately RMB24.4 million.

Issuance of Debt Securities

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

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

As at December 31, 2023, no 2027 Bonds had been converted into new Shares.

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

Five-Year Financial Summary

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

Reserves

As of December 31, 2023, the Company had distributable reserves amounting to RMB62,775.6 million. Details of the movements in the reserves of the Company during the Reporting Period are set out in Note 41(b) to the consolidated financial statements.

DIRECTOR'S REPORT

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

During the Reporting Period and up to the Latest Practicable Date, the Company repurchased a total of 280,734,400 Class B ordinary shares (the "**Class B Shares**") of the Company on The Stock Exchange at an aggregate consideration of approximately HK$3,620,173,600 (the "**Share Repurchased**") to enhance the shareholder value in the long run. Particulars of the Share Repurchased are as follows:

Month of Repurchase	No. of Class B Shares Repurchased	Price paid per share Highest (HK$)	Lowest (HK$)	Aggregate Consideration (HK$)
2023				
May	4,400,000	10.54	10.46	46,197,760
June	38,200,000	11.00	9.96	407,830,772
July	6,900,000	10.88	10.66	74,524,630
September	37,700,000	12.00	11.58	445,713,652
October	16,000,000	12.00	11.64	189,868,052
November	1,600,000	15.00	14.96	23,989,565
December	21,800,000	16.30	14.44	329,330,498
2024				
January	112,100,000	15.54	12.30	1,533,095,902
February	26,000,000	12.78	12.08	324,555,828
March	6,834,400	15.00	14.76	101,929,132
April	9,200,000	15.76	15.42	143,137,809
Total	280,734,400			3,620,173,600

As at the Latest Practicable Date, the number of Class B Shares in issue was reduced by 264,700,000 shares as a result of the cancellations of the Shares Repurchased in May, June, July, September, October, November and December 2023, January and February 2024 accordingly, and all of the Shares Repurchased in March and April 2024 are in the process of being cancelled. 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 May 2023, June 2023, and July 2023 were subsequently cancelled on August 21, 2023. A total of 9,061,798 Class A Shares were converted into Class B Shares on a one-to-one ratio on August 21, 2023, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 8,161,142 Class A Shares and Mr. Lin Bin, through Apex Star LLC, converted 900,656 Class A Shares.

The Class B Shares repurchased in September 2023 and October 2023 were subsequently cancelled on November 15, 2023. A total of 9,814,592 Class A Shares were converted into Class B Shares on a one-to-one ratio on November 15, 2023, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 8,839,116 Class A Shares and Mr. Lin Bin, through Apex Star LLC, converted 975,476 Class A Shares.

The Class B Shares repurchased in November 2023, December 2023, January 2024 and February 2024 were subsequently cancelled on March 14, 2024. A total of 29,373,916 Class A Shares were converted into Class B Shares on a one-to-one ratio on March 14, 2024, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 26,454,431 Class A Shares and Mr. Lin Bin, through Apex Star LLC, converted 2,919,485 Class A Shares.

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

Share Schemes

The Company has four existing share schemes, namely the Pre-IPO ESOP, the 2018 Share Option Scheme, the 2018 Share Award Scheme and the 2023 Share Scheme. Since January 1, 2023 and until the adoption of the 2023 Share Scheme, the Company has relied on the transitional arrangements provided for the existing share schemes and has complied with the new Chapter 17 accordingly (effective from January 1, 2023).

A total of 387,288,632 new Shares, representing approximately 1.9% of the weighted average number of the Class B Shares in issue of the Company, may be issued in respect of all options and awards granted during the Reporting Period to eligible participants pursuant to the 2018 Share Option Scheme, the 2018 Share Award Scheme and the 2023 Share Scheme.

1. Pre-IPO ESOP

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

(a) Purpose

The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance,

DIRECTOR'S REPORT

to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of recipients upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

(b) **Eligible participants**

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

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

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

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

There is no maximum entitlement of each participant.

(e) **Vesting period and exercise period**

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

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

(f) **Consideration and purchase price**

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

(g) **Exercise price and payment**

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

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

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

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

Given that no further Pre-IPO Awards would be granted under the Pre-IPO ESOP, the outstanding number of options and RSUs would be equivalent to the maximum number of new Shares available for issue under the Pre-IPO ESOP. As of the Latest Practicable Date, outstanding options and RSUs representing 234,181,394 underlying Shares, being approximately 0.9% of the issued share capital of the Company, were granted to eligible participants pursuant to the Pre-IPO ESOP. Except for Liu De, no share options and RSUs had been granted to the Directors and other connected persons.

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

					Number of share options and RSUs					
Grantees	Role	Date of grant	Vesting Period[1]	Exercise price (US$)	Outstanding as at January 1, 2023	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at December 31, 2023	Weighted average closing price of the Share immediately before the date of vesting during the year
Director										
Liu De	Executive Director	1/1/2018	5–10 years	0–0.10225	5,385,220	(5,385,220)	–	–	–	12.56
Category subtotal:					5,385,220	(5,385,220)	–	–	–	
Other grantees by category										
Employee Participants		4/1/2010 to 6/14/2018	1–10 years	0–0.344	303,714,793	(53,815,449)	–	(10,565,000)	239,334,344	12.42
Service Providers		1/1/2012 to 4/1/2018	4–5 years	0–0.344	1,788,070	(668,000)	–	–	1,120,070	15.69
Category subtotal:					305,502,863	(54,483,449)	–	(10,565,000)	240,454,414	
Total:					**310,888,083**	**(59,868,669)**	–	**(10,565,000)**	**240,454,414**	

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

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

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2. 2018 Share Option Scheme

The following is a summary of the principal terms of the 2018 Share Option Scheme adopted by the Company on June 17, 2018. Immediately upon the 2023 Share Scheme taking effect on June 8, 2023, no further share options shall be granted under the 2018 Share Option Scheme.

(a) Purpose

The purpose of the 2018 Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and the Shareholders as a whole. The 2018 Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

(b) Eligible participants

Eligible participants under the 2018 Share Option Scheme include any employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Board determines.

(c) Maximum number of shares available for issue

The total number of Class B Shares which may be issued upon exercise of all share options granted under the 2018 Share Option Scheme is 120,700,000 Class B Shares, representing approximately 0.5% of the issued share capital of the Company as at the Latest Practicable Date.

As of January 1, 2023, the total number of Shares available for grant under the 2018 Share Option Scheme was 1,447,394,311 Shares.

Since the 2023 Share Scheme took effect on June 8, 2023, as of December 31, 2023, there was no further share options available for grant under the 2018 Share Option Scheme.

(d) Maximum entitlement of each participant

Unless approved by shareholders of the Company, the total number of Class B Shares issued and to be issued upon exercise of the options granted and to be granted under the 2018 Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Class B Shares in issue. Any further grant of options to a selected participant which would result in the aggregate number of Class B Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date if such further grant exceeding the individual limit shall be subject to separate approval of shareholders of the Company (with such selected participant and his associates abstaining from voting).

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

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

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

The 2018 Share Option Scheme does not set out any performance targets that must be achieved before the options may be exercised. However, the Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

(f) **Exercise price**

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

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

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

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

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

The 2018 Share Option Scheme shall be valid and effective for the period of ten years commencing on the Listing Date. The remaining life of the 2018 Share Option Scheme is approximately over 4 years.

As of December 31, 2023, a total of 233,500,000 options had been granted pursuant to the 2018 Share Option Scheme since its adoption. As at the Latest Practicable Date, there is no further share options available for grant under the 2018 Share Option Scheme.

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Details of movements of share options granted under the 2018 Share Option Scheme during the Reporting Period are as follows:

				Number of share options								
Grantees by category	Date of grant	Vesting Period	Exercise Period	Outstanding as at January 1, 2023	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding as at December 31, 2023	Exercise Price (HK$)	Fair value of options at the date of grant during the year and the accounting standard and policy adopted	Weighted average closing price of the Shares immediately before the date of exercise during the year
Employee Participants												
	7/2/2020	4 years	7/2/2021 to 7/1/2030	3,000,000	–	–	–	–	3,000,000	13.60	N/A	N/A
	9/4/2020	4-10 years	9/4/2021 to 9/3/2030	105,200,000	–	–	–	–	105,200,000	24.50	N/A	N/A
	10/9/2020	4 years	10/9/2021 to 10/8/2030	6,250,000	–	–	–	–	6,250,000	21.04	N/A	N/A
	1/6/2021	4 years	1/6/2022 to 1/5/2031	6,250,000	–	–	–	–	6,250,000	33.90	N/A	N/A
Total:				120,700,000	–	–	–	–	120,700,000			

Further details of the 2018 Share Option Scheme are set out in Note 29 to the consolidated financial statements.

3. 2018 Share Award Scheme

The following is summary of the principal terms of the 2018 Share Award Scheme adopted by the Company on June 17, 2018. Immediately upon the 2023 Share Scheme taking effect on June 8, 2023, no further awards shall be granted under the 2018 Share Award Scheme.

(a) **Purpose**

The purpose of the 2018 Share Award Scheme is (1) to align the interests of eligible persons with those of the Group through ownership of Class B Shares, dividends and other distributions paid on Shares and/or the increase in value of the Class B Shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group.

(b) **Eligible participants**

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

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

The aggregate number of Class B Shares underlying all grants made pursuant to the 2018 Share Award Scheme will not exceed 1,118,806,541 Shares without Shareholders' approval subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

As of January 1, 2023, 387,027,516 Award Shares were available for grant under the 2018 Share Award Scheme. During the Reporting Period, 238,816,959 Award Shares were granted to eligible participants pursuant to the 2018 Share Award Scheme and 61,701,292 Award Shares were forfeited pursuant to the 2018 Share Award Scheme.

Since the 2023 Share Scheme took effect on June 8, 2023, it follows that, as of December 31, 2023, there was no further Award Shares available for grant under the 2018 Share Award Scheme.

(d) **Maximum number of new Shares available for issue**

Under the scheme mandate of the 2018 Share Award Scheme, the total number of new Class B Shares issued and may be issued pursuant to the 2018 Share Award Scheme will not exceed 1,118,806,541 Shares.

The total number of Class B Shares which may be issued under the 2018 Share Award Scheme is 493,419,499 Class B Shares, representing approximately 2.0% of the issued share capital of the Company as at the Latest Practicable Date.

DIRECTOR'S REPORT

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

There is no maximum entitlement of each participant.

(f) **Restrictions on grants**

The Board and its delegate(s) may not grant any award ("**Award**") in the form of Class B Shares pursuant to the 2018 Share Award Scheme (the "**Award Shares**") to any selected participant in any of the following circumstances:

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

(ii) where any member of the Group will be required under applicable securities laws, rules or regulations to issue a prospectus or other offer documents in respect of such Award or the 2018 Share Award Scheme, unless the Board determines otherwise;

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

(iv) where such grant of Award would result in a breach of the 2018 Share Award Scheme limit or would otherwise cause the Company to issue Class B Shares in excess of the permitted amount in the mandate approved by the Shareholders;

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

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

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

(g) Consideration and purchase price

Pursuant to the 2018 Share Award Scheme, there is no amount payable on application or acceptance of the Award and no purchase price of Shares awarded.

(h) Vesting and lapse

The Board or its delegate(s) may from time to time while the 2018 Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award Shares to be vested/lapsed.

(i) Rights attached to the Award Shares

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

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

(j) Duration and Termination

The 2018 Share Award Scheme shall terminate on the earlier of:

(i) the end of the period of ten years commencing on the Listing Date except in respect of any non-vested Award Shares granted under the 2018 Share Award Scheme prior to the expiration of the 2018 Share Award Scheme, for the purpose of giving effect to the vesting of such Award Shares or otherwise as may be required in accordance with the provisions of the 2018 Share Award Scheme; and

(ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the 2018 Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Award Shares already granted to a selected participant.

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(k) Remaining life of the scheme

The remaining life of the 2018 Share Award Scheme is approximately over 4 years.

Details of the Award Shares granted under the 2018 Share Award Scheme (to be satisfied by new Shares) and their movements during the Reporting Period are as follows:

				Number of award shares								
Grantees by category	Date of grant	Vesting Period	Purchase price	Unvested Award Shares as at January 1, 2023	Granted during the year	Vested during the year	Cancelled during the year	Lapsed during the year	Unvested Award Shares as at December 31, 2023	Closing price of Shares immediately before the grant during the year	Fair value of Award Shares at the date of grant during the year and the accounting standard and policy adopted[1]	Weighted average closing price of the Share immediately before the date of vesting during the year
Employee Participants												
	4/1/2019	4-10 years	Nil	7,449,568	–	(2,148,169)	–	(45,675)	5,255,724	N/A	N/A	12.09
	7/19/2019	1 year	Nil	–	–	–	–	–	–	N/A	N/A	N/A
	9/4/2019	4-5 years	Nil	4,650,879	–	(4,574,255)	–	(76,624)	–	N/A	N/A	10.75
	11/28/2019	4 years	Nil	3,139,179	–	(2,989,958[2])	–	(132,989)	16,232	N/A	N/A	11.92
	1/6/2020	4 years	Nil	16,254,501	–	(8,278,862)	–	(780,610)	7,195,029	N/A	N/A	11.63
	4/1/2020	1-4 years	Nil	6,746,619	–	(3,435,430[2])	–	(409,735)	2,901,454	N/A	N/A	12.06
	7/2/2020	4-5 years	Nil	8,830,227	–	(4,519,835[2])	–	(489,122)	3,821,270	N/A	N/A	10.87
	9/4/2020	4-10 years	Nil	11,000,000	–	(2,000,000)	–	(500,000)	8,500,000	N/A	N/A	12.36
	10/10/2020	4-5 years	Nil	1,718,468	–	(493,005[2])	–	(271,955)	953,508	N/A	N/A	11.90
	1/6/2021	4 years	Nil	8,546,264	–	(3,094,147[2])	–	(774,434)	4,677,683	N/A	N/A	11.67
	7/2/2021	1-4 years	Nil	40,220,229	–	(12,974,938[2])	–	(3,546,720)	23,698,571	N/A	N/A	10.98
	7/5/2021	4-10 years	Nil	99,263,285	–	(3,782,639[2])	–	(12,306,250)	83,174,396	N/A	N/A	10.73
	11/24/2021	1-10 years	Nil	33,732,320	–	(9,860,438[2])	–	(3,081,983)	20,789,899	N/A	N/A	11.82
	3/23/2022	1-10 years	Nil	149,464,631	–	(30,076,949[2])	–	(8,630,614)	110,757,068	N/A	N/A	11.47
	5/20/2022	1-5 years	Nil	46,926,172	–	(11,319,421[2])	–	(5,031,478)	30,575,273	N/A	N/A	10.96
	8/21/2022	4 years	Nil	84,497,537	–	(20,100,794[2])	–	(7,151,938)	57,244,805	N/A	N/A	11.70
	11/24/2022	4-5 years	Nil	41,816,250	–	(9,764,811)	–	(3,324,933)	28,726,506	N/A	N/A	14.70
	3/27/2023	1-10 years	Nil	–	186,947,038[3]	(2,003,040)	–	(10,630,105)	174,313,893	12.44	12.00	13.95
	5/25/2023	2-4 years	Nil	–	48,802,290[3]	(62,881)	–	(4,085,924)	44,653,485	10.40	10.50	14.22
Category subtotal:				564,256,129	235,749,328	(131,479,572)	–	(61,271,089)	607,254,796			

Grantees by category	Date of grant	Vesting Period	Purchase price	Number of award shares: Unvested Award Shares as at January 1, 2023	Granted during the year	Vested during the year	Cancelled during the year	Lapsed during the year	Unvested Award Shares as at December 31, 2023	Closing price of Shares immediately before the grant during the year	Fair value of Award Shares at the date of grant during the year and the accounting standard and policy adopted[1]	Weighted average closing price of the Share immediately before the date of vesting during the year
Service Providers:												
	7/19/2019	1 year	Nil	–	–	–	–	–	–	N/A	N/A	N/A
	9/4/2019	4 years	Nil	–	–	–	–	–	–	N/A	N/A	N/A
	1/6/2020	4 years	Nil	11,032	–	(5,516)	–	–	5,516	N/A	N/A	11.62
	4/1/2020	1-4 years	Nil	4,708	–	(2,353)	–	–	2,355	N/A	N/A	11.62
	7/2/2020	4 years	Nil	2,081	–	(1,040)	–	–	1,041	N/A	N/A	12.10
	10/10/2020	4 years	Nil	59,289	–	(22,006)	–	(16,612)	20,671	N/A	N/A	11.92
	1/6/2021	4 years	Nil	29,236	–	(9,739)	–	(176)	19,321	N/A	N/A	11.62
	7/2/2021	4 years	Nil	293,948	–	(81,136)	–	(69,925)	142,887	N/A	N/A	11.29
	11/24/2021	4 years	Nil	98,782	–	(26,478)	–	(21,492)	50,812	N/A	N/A	11.94
	3/23/2022	4 years	Nil	763,480	–	(183,676)	–	(88,313)	491,491	N/A	N/A	11.43
	5/20/2022	4 years	Nil	525,195	–	(119,614)	–	(53,400)	352,181	N/A	N/A	11.25
	8/21/2022	4 years	Nil	330,584	–	(64,702)	–	(94,221)	171,661	N/A	N/A	11.58
	11/24/2022	4 years	Nil	35,757	–	(8,939)	–	–	26,818	N/A	N/A	15.44
	3/27/2023	4 years	Nil	–	688,684[3]	–	–	(86,064)	602,620	12.44	12.00	N/A
	5/25/2023	4 years	Nil	–	228,255[3]	–	–	–	228,255	10.40	10.50	N/A
Category subtotal:				2,154,092	916,939	(525,199)	–	(430,203)	2,115,629			
Total:				566,410,221	236,666,267	(132,004,771)	–	(61,701,292)	609,370,425			

(1): The fair value of the award shares granted during the Reporting Period were determined based on the market value of the Shares at the respective grant dates.

(2): Among the total number of Awards Shares vested as stated, 1,437,888 Award Shares were issued to employee participants who subsequently become connected persons for the purpose of Listing Rules during the Reporting Period by way of existing shares. At the time of grant, these employee participants were not connected persons.

(3): A time-based vesting schedule is applicable to the award shares. The number of award shares to be vested at every anniversary year shall be based on the selected participant's performance rank in the said anniversary year. The performance rank is linked to the performance of the selected participant (and in some cases of the selected participant's department) in the anniversary year as assessed by the Group.

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Details of the outstanding Award Shares granted under the 2018 Share Award Scheme (to be satisfied by existing Shares) are as follows:

				Number of award shares							
Grantees by category	Date of Grant	Vesting Period	Purchase price	Unvested Award Shares as of January 1, 2023	Granted during the year	Vested during the year	Cancelled during the year	Lapsed during the year	Unvested Award Shares as of December 31, 2023	Closing price of Shares immediately before the grant during the year	Fair value of Award shares at the date of grant during the year and the accounting standard and policy adopted[1]	Weighted average closing price of the Share immediately before the date of vesting during the year
Grantees in aggregate:												
	1/6/2021	4 years	Nil	13,406	–	(4,468)	–	–	8,938	N/A	N/A	11.62
	11/24/2021	4 years	Nil	8,619	–	(2,873)	–	–	5,746	N/A	N/A	11.94
	3/23/2022	4–10 years	Nil	1,510,618	–	(2,654)	–	–	1,507,964	N/A	N/A	11.40
	5/20/2022	3–4 years	Nil	1,038,787	–	(342,928)	–	–	695,859	N/A	N/A	10.90
	8/21/2022	4 years	Nil	110,433	–	(27,607)	–	–	82,826	N/A	N/A	11.02
	11/24/2022	4 years	Nil	497,680	–	(124,420)	–	–	373,260	N/A	N/A	11.74
	3/27/2023	4-5 years	Nil	–	2,150,692[3]	–	–	–	2,150,692	12.44	12.00	N/A
Total:				3,179,543	2,150,692	(504,950)	–	–	4,825,285			

(1): The fair value of the award shares granted during the Reporting Period were determined based on the market value of the Shares at the respective grant dates.

(2): Please also refer to Note (2) above set out on page 43 of this annual report.

(3): Please also refer to Note (3) above set out on page 43 of this annual report.

Further details of movements in the 2018 Share Award Scheme are set out in Note 29 to the consolidated financial statements.

4. 2023 Share Scheme

The 2023 Share Scheme was approved at the annual general meeting by the Shareholders on June 8, 2023.

(a) Purpose

The purpose of the 2023 Share Scheme is (1) to provide the Company with a flexible means of attracting, remunerating, incentivising, retaining, rewarding, compensating and/or providing benefits to eligible participants; (2) to align the interests of eligible participants with those of the Company and Shareholders by providing such eligible participants with the opportunity to acquire proprietary interests in the Company and become Shareholders; and (3) to encourage eligible participants to contribute to the long- term growth, performance and profits of the Company and to enhance the value of the Company and its Shares for the benefit of the Company and Shareholders as a whole.

(b) Eligible participants

Eligible Participants are determined by the scheme administrator from time to time to be eligible to participate as grantees under the 2023 Share Scheme, and shall fall under one or more of the below categories:

(i) **Employee Participant**, being any person who is an employee (whether full-time or part-time or other employment relationship), director or officer of any member of the Group on the Grant Date.

(ii) **Related Entity Participant**, being an employee (whether full-time or part-time or other employment relationship), director or officer of the following: a "holding company" of the Company (as defined in the SFO); a "subsidiary" of a holding company of the Company (as defined in the SFO) other than the Group; or an "associate company" of the Company (as defined in the Listing Rules).

(iii) **Service Provider Participant**, being a person who provides services to the Group on a continuing basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group as determined by the scheme administrator pursuant to the below criteria:

Category	Eligibility criteria for Service Provider Participant
(1) Service providers	Outsourced staff engaged by the Group that provides services which are material and relevant to the Group's operations (including but not limited to information technology support, customer services and retails store supports) on a regular or recurring basis.
(2) Consultants	Those that (a) provide consultancy services material and relevant to the Group's operations (including but not limited to services in recruitment, tax, research and development, market advisory services); (b) engage with the Group on a regular or recurring basis; and (c) have specialties or expertise in areas that supplement the Group or with which the Group would consider important to maintain a close business relationship on an ongoing basis.

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Category	Eligibility criteria for Service Provider Participant
(3) Suppliers	Those that supply the Group with goods on a regular or recurring basis, with which the Group would consider important to maintain a close business relationship on an ongoing basis, and in turn, it would be beneficial to the Group's business relationship to grant such supplier with proprietary ownership in the Company and to encourage the supplier to have a vested shareholding interest in the Group and in the Group's future development.
(4) Agents and contractors	Those that provide important services to the Group on a regular or recurring basis with which the Group would consider important to maintain a close collaborative relationship on an ongoing basis, that in turn, it would be beneficial to the collaboration between the Group and the agents and/or contractors to grant such agents and/or contractors proprietary ownership in the Company and to encourage the agents and/or contractors to have a vested shareholding interest in the Group and the Group's future development.

(c) **Award**

An award may take the form of a Share Option or a Share Award, and which shall be funded by Award Shares.

(d) **Maximum number of Award Shares available for grant**

The total number of Class B Shares which may be issued pursuant to all awards to be granted under the 2023 Share Scheme and awards to be granted under any other share schemes of the Company is not more than 2,503,959,565 (the "**Scheme Mandate Limit**"). Within the Scheme Mandate Limit, the total number of Shares which may be issued pursuant to awards to be granted to service provider participants under this Scheme is not more than 125,197,978 (the "**Service Provider Sublimit**").

Upon adoption of the 2023 Share Scheme on June 8, 2023, 2,503,959,565 Shares were available for grant (including 125,197,978 Shares available for grant to Service Providers) under the 2023 Share Scheme. During the Reporting Period, 150,622,365 Award Shares were granted to eligible participants (including 354,225 Award Shares granted to Service Providers) pursuant to the 2023 Share Scheme, respectively and 5,040,126 Award Shares were forfeited (including 7,673 Award Shares forfeited from Service Providers) pursuant to the 2023 Share Scheme. It follows that, as of December 31, 2023, 2,358,377,326 Shares and 124,851,426 Shares were available for grant under the 2023 Share Scheme Limit and the Service Provider Sublimit, respectively.

(e) **Maximum number of Award Shares available for issue**

Upon adoption of the 2023 Share Scheme on June 8, 2023, 2,503,959,565 Shares were available for issue under the Scheme Mandate Limit. During the Reporting Period, no new Shares were issued pursuant to the 2023 Share Scheme. It follows that, as of December 31, 2023 and the Latest Practicable Date, 2,503,959,565 new Shares (representing approximately 10.0% of the issued share capital of the Company as of the Latest Practicable Date) and 2,501,663,634 new Shares (representing approximately 10.0% of the issued share capital of the Company as of the Latest Practicable Date) were available for issue under the Scheme Mandate Limit, respectively.

(f) **Issue price and exercise price**

The scheme administrator may determine in their absolute discretion the Issue Price for the exercise of Share Awards and/or the Exercise Price for Share Options for Awards in the form of Share Awards and/or Share Option (as the case may be) and such prices shall be set out in the award letter. However, the Exercise Price for Share Options shall be no less than the higher of: (a) the closing price of the Shares on the Grant Date; and (b) the average closing price of the Shares for the five Business Days immediately preceding the Grant Date.

(g) **Maximum entitlement of each Eligible Participant**

There is no specific maximum entitlement for each Eligible Participant under the 2023 Share Scheme. Grants to individuals that exceed the thresholds set out in the New Chapter 17 will be subject to additional approval requirements as required under the New Chapter 17.

(h) **Exercise period**

The scheme administrator may determine in its absolute discretion the exercise period for any award of share options and/or share awards and such period shall be set out in the award letter. However, the exercise period for any award of share options shall not be longer than 10 years from the grant date.

(i) **Vesting period**

The scheme administrator may determine the vesting period and specify such period in the award letter. The vesting period may not be for a period less than 12 months from the grant date, except in limited circumstances set out in the scheme rules. These circumstances may only apply to employee participants and are consistent with the scenarios contemplated in FAQ 092-2022 issued by the Stock Exchange, including:

(i) grants of "make whole" awards to a new employee participant to replace the awards that the employee participant forfeited when leaving their previous employer;

(ii) grants to an employee participant whose employment is terminated due to death or disability or event of force majeure;

(iii) grants of awards that are subject to the fulfilment of performance targets as determined in the conditions of the grantee's grant;

DIRECTOR'S REPORT

(iv) grants of awards the timing of which is determined by administrative or compliance requirements not connected with the performance of the employee participant, in which case the vesting date may be adjusted to take account of the time from which the award would have been granted if not for such administrative or compliance requirements;

(v) grants of awards with a mixed vesting schedule such that the award vests evenly over a period of 12 months; or

(vi) grants of awards with a total vesting and holding period of more than 12 months.

(j) Acceptance

The scheme administrator may determine in their absolute discretion the amount (if any) payable on application or acceptance of an award and the period within which any such payments must be made, and such amounts (if any) and periods shall be set out in the award letter. Unless otherwise specified in the award letter, the grantee shall have 10 business days from the grant date to accept the award, following which, the portion not accepted by the grantee shall automatically lapse.

(k) Termination

The 2023 Share Scheme shall terminate on the earlier of: (a) the 10th anniversary of the Adoption Date; and (b) such date of early termination as determined by the Board, provided that such termination shall not affect any subsisting rights in respect of the Awards already granted to Eligible Participants.

(l) Remaining Life of the 2023 Share Scheme

The 2023 Share Scheme is valid and effective for a period of 10 years commencing from the date of adoption and up to June 7, 2033. The remaining life of the 2023 Share Scheme is approximately over 9 years.

				Number of award shares							
Grantees by categories	Date of grant	Vesting Period	Purchase price	Unvested Award Shares as at January 1, 2023	Granted during the year[2]	Vested during the year	Cancelled during the year	Lapsed during the year	Unvested Award Shares as at December 31, 2023	Closing price of Shares immediately before the grant during the year	Fair value of Award Shares at the date of grant during the year and the accounting standard and policy adopted[1]	Weighted average closing price of the Share immediately before the date of vesting during the year
Employee Participants												
	8/30/2023	2-10 years	Nil	–	103,220,703	–	–	(4,393,784)	98,826,919	12.38	12.46	N/A
	11/21/2023	2-10 years	Nil	–	47,047,437	–	–	(638,669)	46,408,768	16.18	15.38	N/A
Category subtotal:				–	150,268,140	–	–	(5,032,453)	145,235,687			
Service Providers												
	8/30/2023	4 years	Nil	–	339,825	–	–	(7,673)	332,152	12.38	12.46	N/A
	11/21/2023	4 years	Nil	–	14,400	–	–	–	14,400	16.18	15.38	N/A
Category subtotal:				–	354,225	–	–	(7,673)	346,552			
Total:				–	150,622,365	–	–	(5,040,126)	145,582,239			

(1): The fair value of the award shares granted during the Reporting Period were determined based on the market value of the Shares at the respective grant dates.

(2): A time-based vesting schedule is applicable to the award shares. The number of award shares to be vested at every anniversary year shall be based on the selected participant's performance rank in the said anniversary year. The performance rank is linked to the performance of the selected participant (and in some cases of the selected participant's department) in the anniversary year as assessed by the Group.

Further details of the 2023 Share Scheme are set out in Note 29 to the consolidated financial statements.

Equity-Linked Agreements

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

DIRECTOR'S REPORT

Directors and Senior Management

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

Executive Directors

Lei Jun
Lin Bin
Liu De

Non-Executive Director

Liu Qin

Independent Non-Executive Directors

Chen Dongsheng
Wong Shun Tak
Tong Wai Cheung Timothy (resigned with effect from January 8, 2024)
Cai Jinqing (appointed with effect from January 8, 2024)

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

Cai Jinqing was appointed as an independent non-executive Director with effect from January 8, 2024. Cai Jinqing has confirmed that she has obtained the legal advice referred to in Rule 3.09D of the Listing Rules, and she confirmed that she understood her obligations as a director of a listed issuer.

Biographical Details and Other Information of the Directors

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

Lei Jun (雷軍), aged 54, is an executive Director, the Founder, the Chairman, the CEO of the Company, and the CEO of the smart electric vehicle business. He is also a member of the Remuneration Committee. Lei Jun is overall responsible for the Company's strategy, company culture and key products. He oversees the senior management team. Lei Jun currently holds directorships in various subsidiaries, Consolidated Affiliated Entities and operating entities of the Group.

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

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

Lin Bin (林斌), aged 56, is an executive Director, a Co-founder and the Vice Chairman of the Board. He is also a member of the Nomination Committee. Lin Bin currently holds directorships in various subsidiaries of the Group.

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

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

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

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

Liu De (劉德), aged 50, is an executive Director, a Co-Founder, Senior Vice President and Minister of the Group Leadership Management Department, is currently responsible for the recruitment, promotion, training and evaluation of the middle and senior management of the Group, as well as the organizational structure design and approval procedures of each department. Mr. Liu is a director of various members of the Group. Mr. Liu is also a director of Ninebot Limited (Shanghai Stock Exchange Stock Code: 689009), Viomi Technology Co., Ltd. (NASDAQ ticker: VIOT), Zepp Health Corporation (NYSE ticker: ZEPP) and Shanghai Longcheer Technology Co., Ltd. (Shanghai Stock Exchange Stock Code: 603341). In October 2002, Liu De co-founded Beijing Xinfengrui Industrial Design Co., Ltd. (北京新鋒銳工業設計公司) and served as its executive director until 2007.

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

DIRECTOR'S REPORT

Liu Qin (劉芹), former name: Liu Ya (劉雅), aged 51, is a non-executive Director and a member of the Audit Committee. Liu Qin became a Director of the Company in May 2010. Liu Qin co-founded and has served as managing partner of 5Y Capital (formerly known as Morningside Venture Capital Limited) since June 2007. The funds under 5Y Capital's management had been the earliest investors of the Group. Before co-founding 5Y Capital, Liu Qin served various roles including as a business development director for investment at Morningside IT Management Services (Shanghai) Co. Ltd. (晨興信息科技諮詢(上海)有限公司) from July 2000 to November 2008. Since June 2008, Liu Qin has been a director of JOYY Inc. (NASDAQ ticker: YY). Since December 2014, Liu Qin has been a director of Agora, Inc. (NASDAQ ticker: API). Liu Qin has also served as a non-executive director of XPeng Inc. (NYSE ticker: XPEV, SEHK stock code: 9868) from September 2019 to June 2023.

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

Chen Dongsheng (陳東升), aged 66, has served as an independent non-executive Director since June 2018. He also currently serves the chairman of both the Remuneration Committee and the Corporate Governance Committee, and a member of the Audit Committee. Chen Dongsheng founded Taikang Insurance Group Inc. (泰康保險集團股份有限公司) (formerly known as Taikang Life Insurance Co., Ltd (泰康人壽保險股份有限公司)) ("**Taikang**") in 1996. He serves the chairman and CEO of Taikang and holds various directorships within the Taikang group. Prior to this, Chen Dongsheng served as the chairman and the general manager of China Guardian Auctions Co., Ltd (中國嘉德國際拍賣有限公司) from May 1993. Prior to this, Chen Dongsheng worked as the deputy editor of the Management World (monthly), published by the Development Research Center of the State Council of China.

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

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

Wong Shun Tak (王舜德), aged 63, currently serves as an independent non-executive Director, and also the chairman of both the Audit Committee and Nomination Committee, and a member of the Remuneration Committee and Corporate Governance Committee. In 2014, Wong Shun Tak co-founded and had concurrently served as the CFO of Rokid Corporation Ltd. Wong Shun Tak has served as the independent non-executive Director, chairman of the nomination committee, chairman of the remuneration committee and member of the audit committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) since July 2014. Wong Shun Tak served as an executive director and CFO of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from October 2011 to July 2012, and also acted as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from April 2007 to September 2011. Wong Shun Tak has served as an independent non-executive director and the chairman of the audit committee of the Company since June 2018. He has also been appointed as the chairman of the nomination committee with effect from January 8, 2024. Mr. Wong currently serves as an independent non-executive director of several subsidiaries of the Company.

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

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

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

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

DIRECTOR'S REPORT

Cai Jinqing (蔡金青), aged 56, has been appointed as an independent non-executive Director, and a member of the Nomination Committee and the Corporate Governance Committee with effect from January 8, 2024.

Cai Jinqing has served as the president of Kering Greater China since 2018. She is committed to enhancing the reputation of Kering in Greater China, strengthening the relationship between Kering and its partners, propelling the long-term development of Kering in China, and promoting the increasingly significant role of Greater China in the global market.

From 2012 to 2018, she worked for Christie's, a world-leading art auction house. She was appointed as the first managing director, president and chairwoman of Christie's China during her tenure at Christie's. At present, she is a member of Christie's Asia Advisory Council. Cai Jinqing had also been the founding partner of Brunswick Beijing from 2005 to 2012, a world-renowned public relations consulting firm. Prior to that, she founded New Alliance Consulting International Limited and managed the annual conference of Boao Forum for Asia as an exclusive public relations consultant.

Since December 1, 2021, Cai Jinqing has served on the board of Mandarin Oriental International Limited (the shares of which are listed on London Stock Exchange (Stock Code: MDO), the Singapore Exchange Limited (Stock Code: M04) and Bermuda Stock Exchange (Stock Code: MOIBD.BH)) as a non-executive director. She also serves as the vice chairwoman of the board of Teach for China, a leading non-profit organisation in China focusing on educational inequality issues in China.

Cai Jinqing obtained her Bachelor's degree from Wellesley College located in Massachusetts and holds a Master's degree in Public Affairs from Princeton University, School of International and Public Affairs.

Biographical Details of Senior Management

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

Lei Jun (雷軍), aged 54, is the Founder, the CEO of the Company, the Chairman and an executive Director, and the CEO of the smart electric vehicle business. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Lin Bin (林斌), aged 56, is a Co-founder, the Vice Chairman of the Board and an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Lu Weibing (盧偉冰), aged 48, is a Partner, President of the Group, and President of the International Business Department of the Group. He is responsible the Smartphone Department, the Ecosystem Department, the Major Appliance Department, the China Region and the India Region.

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

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

Liu De (劉德), aged 50, is a Co-Founder, Senior Vice President and Minister of the Group Leadership Management Department an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

DIRECTOR'S REPORT

Zeng Xuezhong (曾學忠), aged 50, is Senior Vice President and President of Smartphone Department, responsible for the research and development and manufacturing of smartphones. He joined the Group in July 2020. Zeng Xuezhong served as senior vice president and president of ZTE Corporation (中興通訊) (SEHK Stock Code: 763; SZSE Stock Code: 000063) in mainland China, executive vice president of ZTE Corporation and chief executive officer of ZTE Terminal. He also held senior management positions such as global executive vice president of Tsinghua Unigroup (紫光集團有限公司), president of Unisplendour Corporation Limited (紫光股份有限公司), chief executive officer of UNISOC (紫光展銳（上海）科技有限公司), and chairman and general manager of Hatchip Communications (匯芯通信技術有限公司). As an excellent manager and expert in communications industry, he has rich practical experience in corporate strategy, innovation and transformation.

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

Yan Kesheng (顏克勝), aged 53, is a Vice President, General Manager of the Smart Manufacturing Department. He is responsible for system-level solutions for smart manufacturing. Yan Kesheng joined the Group in 2010, and was head of the Smartphone Hardware R&D Department. He fully engaged in processes including defining and manufacturing of smartphones and established several departments including the Smartphone Core Component Department, Group Quality Committee and Qinghe University. Before joining the Group, Yan Kesheng was a senior mechanical design manager at Star Shine Tech Co., Ltd. (星耀無線科技有限公司) from October 2008 to October 2010. From October 2002 to October 2008, Yan Kesheng worked as the chief structural design engineer and project leader at Motorola Technology Co., Ltd. (摩托羅拉科技有限公司). Before this, Yan Kesheng worked as a senior mechanical engineer and design team leader at Vtech Telecommunications Limited (偉易達通訊設備有限公司) from December 1998 to October 2002 and as the chief engineer at Hubei Yichang Nanyuan Vehicle Manufacturing Co., Ltd. (湖北宜昌南苑車輛製造有限公司) from July 1992 to November 1998.

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

Lam Sai Wai Alain (林世偉), aged 50, is a Vice President and the CFO of the Group, and the Chairman of Airstar Digital Technology. Prior to joining the Group in October 2020, Alain served as a Managing Director and Head of Technology, Media and Telecom in the Investment Banking and Capital Markets department of Credit Suisse between January 2016 and October 2020. Between July 1997 and December 2015, Alain worked at Morgan Stanley in various locations including London, New York, Menlo Park and Hong Kong.

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

Zhu Dan (朱丹), aged 46, is a Vice President and Vice President of R&D, Smartphone Department. Zhu Dan joined the Group in October 2010 and has been responsible for the Baseband Department, Product Department, Camera Department, and Display Department, all under the Smartphone Department of the Group. From 2016 to 2018, he was responsible for product planning in the Smartphone Product Department. From 2018 to 2021, he was responsible for R&D management and technical roadmap for the Camera Department and led the Camera Department to receive two DXOMARK first places. Prior to joining the Group, Zhu Dan was the R&D director of baseband department of Firebrand Technology Limited（Firebrand 科技有限公司）from May 2008 to October 2010 and an electronics engineer of Motorola North Asia Center（摩托羅拉北亞中心）from October 2003 to May 2008.

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

Wang Xiaoyan (王曉雁), aged 49, is a Vice President and President of the Group's China Region. Wang Xiaoyan joined the Group in 2019 and has been responsible for the E-Commerce Department, Sales and Operation Department, New Retail Department and Carrier Department of China Region. He has played a decisive role in the stabilization and development of the new retail business of the China Region. Prior to this, he had rich working experience in the telecommunications industry. He participated in the establishment of the mobile phone brand Xiaolajiao (小辣椒) and worked at Tianyu Communication Equipment Co., Ltd. (北京天宇朗通通信設備有限公司) and ZTE Corporation (中興通訊股份有限公司).

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

Qu Heng (屈恒), aged 42, is a Vice President, Chairman of the Group Technology Committee, and Chairman of the Group Information Security and Privacy Committee. He is also responsible for Group Quality Committee and the Group Procurement Committee.

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

DIRECTOR'S REPORT

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

Ma Ji (馬驥), aged 45, is a Vice President and the General Manager of the Group's New Retail Department of China Region. Ma Ji joined the Group in 2013 and has been in charge of, among others, the MIUI Security Center, MIUI products, and International Internet businesses. He led the team to facilitate the globalization of MIUI and the Group's Internet products and services. In October 2020, he was appointed as the General Manager of the Group's Internet Business Department; in December 2022, he was appointed as the Vice President of the Group; and in October 2023, he was appointed as the General Manager of the Group's New Retail Department of China Region, responsible for the operation and expansion of Xiaomi Store in mainland China and the operation of Xiaomi Store App and Xiaomi YOUPIN App. Prior to this, Ma Ji had many years of working experience in the mobile internet industry and worked at Qizhi Software (Beijing) Co., Ltd. (奇智軟件（北京）有限公司).

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

Director's Service Contracts and Appointment Letters

1. Executive Directors

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

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

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

Each of Chen Dongsheng and Wong Shun Tak has entered into an appointment letter with our Company on June 10, 2021, and Cai Jinqing has entered into an appointment letter with our Company on January 8, 2024. The initial term for their appointment letters shall be three years from the date of their appointment and shall be automatically renewed for a successive period of three years (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under these appointment letters, each of the independent non-executive Directors will receive an annual director's fee of HK$600,000, which in each case has been recommended by the Remuneration Committee and approved by the Board with reference to the independent non-executive Director's qualifications, experience and responsibilities with the Company.

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

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

As of December 31, 2023, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

DIRECTOR'S REPORT

1. Interest in Shares

Name of Director or chief executive	Nature of interest[1]	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares[2]
Lei Jun[3]	Beneficiary, founder and settlor of a Trust(L)	ARK Trust (Hong Kong) Limited	4,113,113,657 Class A Shares	90.06%
			1,941,065,981 Class B Shares	9.47%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited	4,113,113,657 Class A Shares	90.06%
			1,789,599,309 Class B Shares	8.73%
	Interest in controlled corporations(L)	Smart Player Limited	59,221,630 Class B Shares	0.29%
	Interest in controlled corporations(L)	Team Guide Limited	92,245,042 Class B Shares	0.45%
Lin Bin[4]	Beneficial owner(L)		30,347,523 Class B Shares	0.15%
	Trustee of a trust(L)	Apex Star FT LLC	93,438,272 Class B Shares	0.46%
	Interest in controlled corporations(L)	Apex Star LLC	453,919,103 Class A Shares	9.94%
			1,701,528,712 Class B Shares	8.30%
	Interest in controlled corporations(L)	Bin Lin and Daisy Liu Family Foundation	60,686,600 Class B Shares	0.30%
Liu Qin[5]	Interest in controlled Corporations(L)	Morningside China TMT Fund I, L.P.	7 Class B Shares	0.00%
	Founder of Trust(L)		184,466,366 Class B Shares	0.90%
Liu De[9]	Beneficial owners(L)		10,000,000 Class B Shares	0.05%
	Founder of a trust(L)	Lofty Power International Limited	135,871,935 Class B Shares	0.66%
Chen Dongsheng[7]	Interest in controlled corporations(L)	Taikang Asset Management (Hong Kong) Company Limited	2,443,200 Class B Shares	0.01%

Notes:

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

(2) The calculation is based on the total number of relevant class of Shares in issue as at December 31, 2023.

(3) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,113,113,657 Class A Shares and the 1,789,599,309 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO.

(4) Lin Bin directly holds 30,347,523 Class B Shares. Apex Star FT LLC is controlled by Bin Lin Family Trust. Accordingly, Lin Bin, as the trustee of Bin Lin Family Trust, is deemed to be interested in 93,438,272 Class B Shares held by Apex Star FT LLC under the SFO. Bin Lin and Daisy Liu Family Foundation is controlled by Lin Bin. Accordingly, Lin Bin is deemed to be interested in 60,686,600 Class B Shares held by Lin Bin and Daisy Liu Family Foundation under the SFO. Apex Star LLC is controlled by Bin Lin. Accordingly, Lin Bin is deemed to be interested in 1,701,528,712 Class B Shares and 453,919,103 Class A Shares held by Apex Star LLC under the SFO.

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

(6) Liu De directly holds 10,000,000 Class B Shares. Lofty Power International Limited is controlled by YYL Trust (formerly known as YYL Family Trust). Accordingly, Liu De, as the settlor and protector of YYL Trust, is deemed to be interest in 135,871,935 Class B Shares held by Lofty Power International Limited under the SFO.

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

DIRECTOR'S REPORT

2. Interest in associated corporations

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

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as of December 31, 2023.

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

(3) Smart Mobile Holdings Limited, the holding company of the Company, is wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Lei Jun is the beneficial owner of the entire interest in Smart Mobile Holdings Limited, and is deemed to be interested in the 4,113,113,657 Class A Shares and 1,789,599,309 Class B Shares held by Smart Mobile Holdings Limited under the SFO. Therefore, Smart Mobile Holdings Limited, Sunrise Vision Holdings Limited and Parkway Global Holdings Limited are associated corporations of the Company.

Save as disclosed above, as of December 31, 2023, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Permitted Indemnity Provision

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

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

Directors' Rights to Acquire Shares or Debentures

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

Directors' Interests in Competing Business

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

During the Reporting Period, Liu Qin, our non-executive Director, has acted as a non-executive director of XPeng Inc. (Stock code: 9868), a smart electric vehicles company in China, until June 20, 2023. The Company is of the view that such competing interest did not result in any material conflict of interest because, in his capacity as a non-executive Director, Liu Qin did not participate in the day-to-day management of XPeng Inc. Our Group is capable of carrying on the smart electric vehicles business independently, and at arm's length from XPeng Inc.

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

DIRECTOR'S REPORT

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

As of December 31, 2023, so far as the Directors are aware, the following parties (other than our Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares[1]
Class A Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	4,113,113,657	90.06%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	4,113,113,657	90.06%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	4,113,113,657	90.06%
ARK Trust (Hong Kong) Limited[2]	Trustee	4,113,113,657	90.06%
Class B Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	1,789,599,309	8.73%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	1,848,820,939	9.02%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	1,848,820,939	9.02%
ARK Trust (Hong Kong) Limited[2]	Trustee	2,744,129,894	13.38%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2023.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,113,113,657 Class A Shares and the 1,789,599,309 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) 92,245,042 Class B Shares held by Team Guide Limited under the SFO. ARK Trust (Hong Kong) Limited is also a trustee for a number of trusts and therefore is deemed to be interested in the 803,063,913 Class B shares held by the trusts.

Save as disclosed above, as of December 31, 2023, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Contracts with Controlling Shareholders

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

Management Contracts

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

Connected Transactions

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

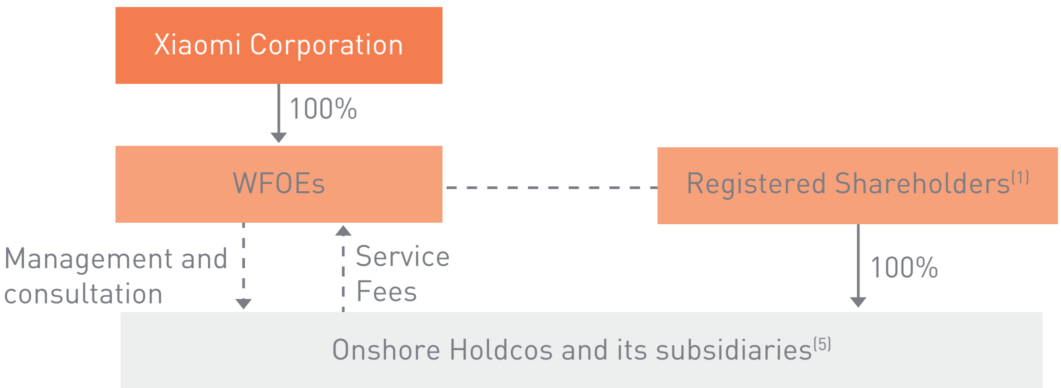
1. Contractual Arrangements

(1) Contractual Arrangements in Place

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

DIRECTOR'S REPORT

The following simplified diagram illustrates the Contractual Arrangements that were in place as of December 31, 2023:



Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a) Exclusive Business Cooperation Agreements

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

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

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

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

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

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

(vi) providing business management consultation;

(vii) providing marketing and promotional services;

(viii) providing customer order management and customer services;

DIRECTOR'S REPORT

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

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

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

b) Exclusive Option Agreements

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

c) Equity Pledge Agreements

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

d) Powers of attorney

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

e) Loan Agreements

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

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

For the Reporting Period, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2023, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of the Consolidated Affiliated Entities amounted to RMB9,973 million for the Reporting Period, representing an increase by 13.0% from RMB8,822 million for the year ended December 31, 2022. For the Reporting Period, the revenue the Consolidated Affiliated Entities accounted for approximately 3.7% of the revenue of our Group (2022: 3.2%).

DIRECTOR'S REPORT

(2) **Reasons for Adopting the Contractual Arrangements**

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

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

(3) Risks relating to the Contractual Arrangements

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

- the PRC government may find that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, which may subject us to severe penalties or be forced to relinquish our interests in those operations;
- substantial uncertainties exist with respect to the interpretation and implementation of Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法) and how it may impact the viability of our current corporate structure, corporate governance and business operations;
- the Contractual Arrangements may not be as effective in providing operational control as direct ownership and our Consolidated Affiliated Entities and the Registered Shareholders may fail to perform their obligations under the Contractual Arrangements;
- we may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities, which could render us unable to conduct some or all of our business operations and constrain our growth;
- the Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and any additional taxes could substantially reduce our consolidated profit and value of your investment;
- the equity holders, directors and executive officers of the Consolidated Affiliated Entities, as well as our employees who execute other strategic initiatives, may have potential conflicts of interest with our Company;
- certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws and regulations; and
- our exercise of the option to acquire equity ownership of our Consolidated Affiliated Entities may subject us to certain limitations and substantial costs.

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

DIRECTOR'S REPORT

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

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

(4) Requirement related to Contractual Arrangements (other than relevant foreign ownership restrictions) as of December 31, 2023

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

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

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

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

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

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

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

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

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

(6) Confirmation from Independent Non-executive Directors

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

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

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

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

DIRECTOR'S REPORT

(7) Confirmations from the Company's Independent Auditor

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

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

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

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

2. Other Connected Transactions

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

(1) The 2020 and 2023 XMF Framework Agreement

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

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

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

No.	Transactions	Annual cap for the year ended December 31, 2023 (RMB million)	Actual transaction amounts for the year ended December 31, 2023 (RMB million)
1.	Supply of products by the XM Group to the Xiaomi Finance Group	504	1
2.	Provision of payment and settlement services by the Xiaomi Finance Group to the XM Group	559	80
3.	Provision of marketing services by the XM Group to the Xiaomi Finance Group	877	6
4.	Provision of marketing services by the Xiaomi Finance Group to the XM Group	506	—
5.	Provision of financial services by the XM Group to the Xiaomi Finance Group (excluding the XMF Restructuring Loans)	9,033	5,301
6.	Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group	654	89
7.	Provision of comprehensive support services by the Xiaomi Finance Group to the XM Group	209	66

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

On December 22, 2023, the Company (for itself and on behalf of the XM Group) and Xiaomi Finance (for itself and on behalf of the Xiaomi Finance Group) agreed to renew the 2020 XMF Framework Agreement for a term of three years from January 1, 2024 to December 31, 2026 (both days inclusive).

We have agreed to treat members of the Xiaomi Finance Group as connected subsidiaries (as defined in Rule 14A.16 of the Listing Rules) and thus the intra-group transactions involving the XM Group and the Xiaomi Finance Group under the 2020 and 2023 XMF Framework Agreement will constitute connected transactions under the Listing Rules.

DIRECTOR'S REPORT

(2) Confirmation from Independent Non-executive Directors

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

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

(ii) on normal commercial terms or better; and

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

During the year ended 31 December 2023, save as disclosed in the section headed "Connected Transactions" of this annual report, no related party transactions disclosed in Note 39 to the financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules.

(3) Confirmations from the Company's Independent Auditor

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

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

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

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

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

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

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

Major Customers and Suppliers

For the Reporting Period, the five largest customers of the Group accounted for approximately 18.3% of the Group's total revenues while the largest customer of the Group accounted for approximately 12.2% of the Group's total revenues. In addition, for the Reporting Period, the five largest suppliers of the Group accounted for approximately 32.0% of the Group's total purchase amounts while the largest supplier for the Reporting Period, accounted for approximately 12.1% of our total purchase amount.

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

Pre-Emptive Rights

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

Tax Relief

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

Weighted Voting Rights

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

DIRECTOR'S REPORT

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

As of December 31, 2023, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,113,113,657 Class A Shares, representing approximately 62.2% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin beneficially owns 453,919,103 Class A Shares, representing approximately 6.9% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Apex Star LLC, a company controlled by Lin Bin.

Class A Shares may be converted into Class B Shares on a one-to-one ratio. As of December 31, 2023, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 4,567,032,760 Class B Shares, representing approximately 22.3% of the total number of issued and outstanding Class B Shares or 18.2% of the issued share capital of the Company.

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

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

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

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

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

Corporate Governance

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 81 to 103 of this annual report.

Environmental Policies and Performance

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

For details of the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report on pages 104 to 192 of this annual report.

Final Dividend

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

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. As of December 31, 2023, the Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak. Mr. Wong Shun Tak is the chairman of the Audit Committee.

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

DIRECTOR'S REPORT

Material Litigation

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

Public Float

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

Compliance with Relevant Laws and Regulations

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

Auditor

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

Events after the Reporting Period

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

By order of the Board
Lei Jun
Chairman

Hong Kong, March 19, 2024

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the year ended December 31, 2023.

Corporate Governance Practices

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

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

Save for code provision C.2.1 of the CG Code, the Company has complied with all the code provisions set out in the CG Code contained in Appendix C1 to the Listing Rules during the Reporting Period. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviation are summarized in the sections below.

Compliance with the Model Code for Securities Transactions by Directors

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

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

Board of Directors

Board Composition

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

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

Non-executive Director
Liu Qin

Independent Non-executive Directors
Chen Dongsheng
Wong Shun Tak
Tong Wai Cheung Timothy (resigned with effect from January 8, 2024)
Cai Jinqing (appointed with effect from January 8, 2024)

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

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

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

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

Responsibilities and Delegation

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

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

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

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

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

Chairman and Chief Executive Officer

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

Appointment and Re-Election of Directors

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

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

CORPORATE GOVERNANCE REPORT

Continuous Professional Development of Directors

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

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

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

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

Name of director	Type of continuous professional development training[Notes]
Lei Jun	A & B
Lin Bin	A & B
Liu De	A & B
Liu Qin	A & B
Chen Dongsheng	A & B
Wong Shun Tak	A & B
Tong Wai Cheung Timothy[(1)]	A & B

Notes:

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

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

(1) Tong Wai Cheung Timothy has resigned as an independent non-executive Director with effect from January 8, 2024.

Attendance Records of Directors

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

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

(1) Tong Wai Cheung Timothy has resigned as an independent non-executive Director with effect from January 8, 2024.

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

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

CORPORATE GOVERNANCE REPORT

Board Committees

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

Audit Committee

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

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

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

- Reviewed the 2022 annual report, including the Corporate Governance Report, the Environmental, Social and Governance Report, Directors' Report and the financial statements.
- Reviewed the audited annual results of the Group for the Reporting Period.
- Reviewed the unaudited first quarterly results of the Group for the three months ended March 31, 2023.
- Reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2023.
- Reviewed the unaudited third quarterly results of the Group for the three and nine months ended September 30, 2023.
- Discussed matters with respect to effectiveness of the Company's financial reporting system, the system of internal control in operation, risk management system and associated procedures within the Group with senior management members, internal auditors and the Auditor.
- Reviewed the plans, resources and work of the Company's internal auditors.

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

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

Corporate Governance Committee

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

The following is a summary of work performed by the Corporate Governance Committee during the Reporting Period and up to the Latest Practicable Date:

- Reviewed and monitored whether the Company is operated and managed for the benefits of all its Shareholders;

CORPORATE GOVERNANCE REPORT

- Reviewed the policies and practices of the Company on corporate governance and on compliance with legal and regulatory requirements. The policies reviewed include the Code for Securities Transactions by Directors and Relevant Employees, board diversity policy, director nomination policy, shareholders' communication policy, procedures for nomination of director by shareholders, disclosure of information policy, connected transactions policy, whistle-blowing policy, dividend policy, board remuneration policy, board policy on obtaining independent views and inputs and other corporate governance policies.

- Reviewed the Company's compliance with the CG Code and the deviation(s) from code provision C.2.1 of the CG Code, the Company's disclosure in the Corporate Governance Report and the Company's disclosure for compliance with Chapter 8A of the Listing Rules.

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

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

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

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

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

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

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

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

The Corporate Governance Committee has confirmed that (i) the WVR Beneficiaries have been members of the Board throughout the Reporting Period; (ii) no matter under Rule 8A.17 of the Listing Rules has occurred during the Reporting Period; and (iii) the WVR Beneficiaries have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules during the Reporting Period.

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

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

Independent Input Mechanism

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

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

CORPORATE GOVERNANCE REPORT

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

Despite having obtained any information or advice from the chairperson of the Board and/ or any independent professional advisers through the Mechanism, the Directors are expected to exercise independent judgement in forming their decisions. During the year ended December 31, 2023, the Board has reviewed the Independent Input Mechanism and considered that the implementation of the mechanisms was effective.

Nomination Committee

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

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

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

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

- Recommended the re-election of the retiring Directors at the 2023 annual general meeting of the Company.

Board Diversity Policy

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

As of the Reporting Period, all of the Board are male. On January 8, 2024, Prof. Tong Wai Cheung Timothy resigned as an independent non-executive Director and Ms. Cai Jinqing was appointed as an independent non-executive Director. To further ensure gender diversity of the Board in the long run, the Nomination Committee will periodically review the Board Diversity Policy and monitor its continued effectiveness. The Group will also continue to take opportunities to increase the proportion of female board members workforce over time as and when suitable candidates are identified. For further details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report on pages 104 to 192 of this Annual Report.

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

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

Director Nomination Policy

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

CORPORATE GOVERNANCE REPORT

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

Remuneration Committee

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

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

- Reviewed the remuneration policy and the remuneration packages of the Directors and senior management of the Company.

- Reviewed and approved the terms of and/or matters relating to incentive schemes (including share schemes) under Chapter 17 of the Listing Rules.

- Reviewed and recommended to the Board the grant of share awards to certain senior management of the Company and grantees. While considering the grant of share awards, the Remuneration Committee had evaluated the remuneration of the grantee in comparable market peer and the value of grant to the grantee. After considering those factors, the Remuneration Committee recommended the proposed grant of share awards to the grantee to the Board for approval to appreciate the grantee's devotion and commitment to the Company which align with the purposes of the respective share schemes.

Directors' Remuneration Policy

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

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

- any corporate policies or goals as resolved by the Board from time to time;
- factors such as the level of remuneration paid by comparable companies, the time committed by the Directors and their responsibilities, and the employment conditions elsewhere in the Group; and
- the level of remuneration necessary to attract and retain directors for successful management of the Company.

In addition, the Remuneration Committee shall:

- review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- ensure that no director or any of their associates is involved in determining their own remuneration. In general, no performance-related equity-based remuneration (such as options or share awards) should be given to independent non-executive directors as it may impede their objectivity and independence.

Remuneration of Senior Management

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

Annual Remuneration	Number of individuals
HK$0 to HK$10,000,000	7
HK$10,000,001 to HK$30,000,000	4
HK$30,000,001 to HK$100,000,000	3
HK$100,000,001 to HK$150,000,000	—
HK$150,000,001 to HK$300,000,000	1

Notes:

(1) Senior management as of December 31, 2023.

CORPORATE GOVERNANCE REPORT

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

Risk Management and Internal Controls

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

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

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

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

Organization principles:

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

The First Line of Defense — Management and Operation:

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

Notes:

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

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

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

The Third Line of Defense — Internal Audit and Forensic:

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

The Internal Audit team directly reports to the Audit Committee.

Risk Management Process:

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

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

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

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

CORPORATE GOVERNANCE REPORT

Significant risks of the Company:

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

1. Global macroeconomic risks

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

2. Geopolitical and compliance risks

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

3. Product and service quality

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

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

4. Supply chain

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

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

5. Information security and privacy

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

CORPORATE GOVERNANCE REPORT

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

The Company has received the ISO 27001, ISO 29151 and ISO 27018 international security and privacy certifications. We have also filed "Network Security Level Protection" document with the Ministry of Public Security of PRC, to satisfy the requirements for corporate information security management. The Company released the "MIUI Security and Privacy White Paper" to share the Company's practices in data security and user privacy with users and the industry.

Anti-Corruption and Whistleblowing Policies

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

Directors' Responsibilities in Respect of the Financial Statements

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

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

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

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

Auditor's Remuneration

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

Type of services provided by the Auditor	Fees paid/payable (RMB'000)
Audit services	52,744
Non-audit services	12,539
Total	**65,283**

CORPORATE GOVERNANCE REPORT

Joint Company Secretaries

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

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

During the Reporting Period, each of Liu hao and So Ka Man has taken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communications with Shareholders and Investor Relations

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

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

During the Reporting Period, the Company held an annual general meeting on June 8, 2023. Notice of the meeting was sent to the Shareholders on May 12, 2023, not less than 21 days before the date of the annual general meeting. The chairman of the Board and the chairmen of each of the Audit Committee, the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee attended the annual general meeting and were available to answer any questions raised by the Shareholders. A representative of the Auditor also attended to answer any questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

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

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

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

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

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

Shareholders' Communication Policy

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

CORPORATE GOVERNANCE REPORT

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

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

Dividend Policy

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

Shareholders' Rights

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

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

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

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

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

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

Constitutional Documents

During the Reporting Period, there were no significant changes in the Memorandum and Articles of Association of the Company.

Events after the Reporting Period

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

About this Report

This is the sixth environmental, social, and governance (ESG) report published by Xiaomi Corporation ("Xiaomi," the "Group," or "we/us"), with an aim to present, on an objective and impartial basis, the ESG strategy, management, and implementation progress of Xiaomi and its subsidiaries included in the Annual Report in 2023.

The Report was prepared in accordance with Appendix C2 Environmental, Social and Governance Reporting Guide to the Listing Rules of the Stock Exchange of Hong Kong Limited (HKEx), with reference to the Global Reporting Initiative (GRI) sustainability reporting Standards (2021), the Hardware — Sustainability Accounting Standard of the Sustainability Accounting Standards Board (SASB), and the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and the United Nations Sustainable Development Goals (UNSDGs).

In preparation for the Report, we adhered to the reporting principles of Materiality, Quantitative, Balance, and Consistency, while taking into account Accuracy, Balance, Clarity, Comparability, Completeness, Timeliness, Verifiability, and Sustainability Context to define our reporting boundary and ensuring proper presentation of our reported information.

The Group entrusted BSI Management Systems Certification (Beijing) Co., Ltd. to perform reasonable assurance on selected ESG KPIs in accordance with the international assurance standards, AA1000 Assurance Standard V3, and the GRI sustainability reporting Standards (2021). For more detailed assurance procedures and assurance report conclusions, please refer to the attachment "Independent Assurance Statement."

This Report covers the period from January 1, 2023, to December 31, 2023 ("this year" or "the reporting period") and presents information over a wider time frame spanning before or after 2023 to enhance data comparability and continuity.

The information and cases within the Report are primarily cited from the Group's statistical reports, official documents, and financial statements in 2023. Unless otherwise specified, all currencies and amounts mentioned in this report are measured in RMB.

The Group undertakes that there are no false records or misleading statements in this Report, and takes responsibility for the authenticity, accuracy, and completeness of the information in this Report.

It is recommended to read this Report in conjunction with the section titled Corporate Governance Report as contained in the Annual Report, as well as the Sustainability page (https://www.mi.com/global/about/sustainability/) of the Group's official website, and Xiaomi Corporation's TCFD Report 2023.

This Report is published in both Chinese and English in April 2024. In the event of discrepancies between the Chinese and English versions, the Chinese version shall prevail.

If you have any suggestions or comments about this report, please contact Xiaomi by the following means:

E-mail: mi-esg@xiaomi.com

About Xiaomi

Xiaomi is a consumer electronics and smart manufacturing company with smartphones and smart hardware connected by an IoT platform at its core, with smartphone shipments among global top 3. In December 2023, the global monthly active users (MAU) of Xiaomi[1] reached 641 million, representing a year-on-year increase of 10.2%. Xiaomi has also established the world's leading consumer AIoT[2] platform, to which 740.0 million smart devices had been connected (excluding smartphones, laptops, and tablets) as of December 31, 2023.

In 2023, we continued to make significant progress in our smartphone premiumization strategy. The Xiaomi 14 Series, our flagship smartphone launched in October 2023, garnered widespread acclaim for its leading-edge technology, exquisite design, exceptional imaging, and excellent user experience.

In August 2023, we introduced our new goal for 2020–2030, which was to invest in foundational core technologies and to become a global leader in the evolving realm of cutting-edge technologies.

In October 2023, we upgraded our corporate strategy to "Human × Car × Home" and unveiled our new operating system, "Xiaomi HyperOS".

In December 2023, we held our Xiaomi EV Technology Launch event, unveiling Xiaomi EV's five core self-developed technologies — E-Motor, Battery, Xiaomi HyperCasting Technology, Smart Cabin, and Autonomous Driving. We also officially debuted the Xiaomi SU7 Series.

In the pursuit of our strategic goal, we always adhere to our commitment to enriching and improving users' life experiences. We are constantly promoting technological innovation, aiming to build a platform of excellence in the international arena of smart technology, lead the new trend of industry development, and present a richer and more colorful smart life experience for users around the world.

Board Statement

Xiaomi has implemented effective strategies to balance its environmental and social impacts with business goals and promote sustainable development of the Group.

The Board of Directors of Xiaomi (the "Board") firmly believes that continuous advancement of the ESG management framework is crucial to the sustainable development of the Group. Xiaomi should continue to accelerate business growth by reducing ESG risks and increasing ESG opportunities, and contribute to a sustainable society through its business. Therefore, all members of the Group are committed to continuously exploring and improving the ESG system and driving Xiaomi towards a more sustainable future. To this end, the Board has appointed the Corporate Governance Committee (the "CGC") to oversee ESG issues at Xiaomi, with the assistance of the Group's Sustainability Committee (the "SC").

In addition, the Group has integrated key ESG risks into its comprehensive risk management system. Senior management and business directors are engaged in assessing key ESG risks related to the business. By identifying and assessing the probability, impact, and trend of key ESG risks, Xiaomi Corporation has developed corresponding risk response measures. The Board reviews key ESG-related risks on a regular basis and advises on risk management approaches.

1 Note: Including smartphones and tablets.
2 AIoT: Artificial Intelligence of Things.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

Xiaomi Corporation continues to develop and improve the Group's ESG strategy system based on its existing ESG strategy. On a bi-annual basis, the Board collects and analyzes data required for assessing ESG risks, and synchronously discusses and reviews relevant strategies and measures. In this manner, it evaluates the comprehensive impact of various ESG strategies on the Group's overall finances through scenario analyses of the performance of the strategies, ensuring alignment with the Group's development strategy.

During the reporting period, the Board actively participated in the assessment of ESG risks and opportunities and identified important matters. It focused on supply chain risks, product and service quality risks, among others. The Audit Committee assisted the Board and senior management in overseeing the Group's risk management practice, as well as the design, implementation, and management of its internal control system. Details can be found in the "Corporate Governance Report" section of the Group's Annual Report, which has been reviewed and approved by the Board.

The Board prioritizes gender diversity in Board membership and equality and inclusion undertakings. It continues to promote a diverse perspective on corporate governance, higher gender awareness, and gender equality within the organization. In January 2024, the Board reviewed, scrutinized, and approved the appointment of a female director. For details, please refer to the "Corporate Governance Report" in the Annual Report.

In 2023, the Board looked into ESG issues that substantially impacted business and closely concerned Xiaomi's stakeholders, including the ESG strategy and the progress of sub-issues. The assessment process and results are detailed in the "Stakeholder Engagement" and "Materiality Assessment" sections of this Report.

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

This Report was reviewed and approved by the Board on March 19, 2024.

Stakeholder Engagement

At Xiaomi, we actively listen and respond to the expectations of our stakeholders, uphold transparent disclosure, and release updates throughout the year on our Sustainability page (https://www.mi.com/global/about/sustainability/). We have established effective communication mechanisms and diverse communication channels with stakeholders on material issues to ensure that their opinions and recommendations are being integrated into our decision-making process. We endeavor to strengthen our positive relationships with stakeholders and strive for mutual benefits and win-win outcomes on sustainability issues.

Key Stakeholder	Issues Most Concerned	Main Communication Channels
Users	Product and service quality Data security and privacy protection Sci-tech innovation Data inclusion	Sales channels, the official website and applications, product information disclosure, user service channels, feedback and communication channels, product launch events, social media, and Xiaomi Fan activities
Shareholders and Investors	Risk management Corporate governance Sci-tech innovation Corporate strategy and business returns Sustainability indicators	Annual general meetings, annual reports/interim reports, earnings announcements, investor meetings and events, the official website, press releases/announcements, surveys, and questionnaires
Employees	Employee rights and communication Employee development and talent nurturing Employee wellbeing Corporate culture Inclusion and diversity Work environment	Work communication meetings, the employee feedback email box, internal office software, the labor union, employee service channels, organizational ability surveys, training, internal announcements, and whistleblowing channels
Suppliers	Labor rights Business ethics Compliance and stewardship Supply chain continuity Environmental and social issues	Executive dialogues, suppliers' conferences, business and technical collaboration, supplier audits, empowerment and training, surveys, dialogue and reporting mechanisms
Operators	Product quality Technological innovation Information security and privacy protection Sustainability indicators Responsible purchasing	Executive dialogues, synergy and collaboration, sustainability seminars, survey and questionnaire responses, and third-party audits
Regulators	Economic impact Legal and regulatory compliance Business ethics Occupational health and safety Fair competition	Regular inquiries, policy consultations, executive meetings, reporting procedures, on-site inspections, opinion contributions, and meetings and communication with government agencies

Key Stakeholder	Issues Most Concerned	Main Communication Channels
International organizations and non-governmental organizations (NGOs) and associations	Climate change and environmental impacts Human rights and stewardship Information disclosure Community engagement Circular economy Natural resources and biodiversity	Social media, industry conferences, forums and working groups, seminars, project-based collaboration, and survey and questionnaire responses
Media	Information disclosure Business strategies Data security and privacy protection Sustainability strategy	The official website, social media, press conferences, press releases/announcements, and media interviews
Community	Environmental impacts Local employment and economic growth Community welfare and engagement Natural resources and biological diversity	Community activities, press conferences, job fairs, charity works, and social media

Materiality Assessment

Defining Objectives and Scope

We conduct an annual review and analysis of our material issues. Our major stakeholders in this materiality assessment include investors, the Board of Directors, senior management, partners, employees, and other key representatives from internal and external roles and organizations. To ensure that Xiaomi is adaptable to the rapid changes in these issues, any emerging issues, and sustainability demands in the longer term, we have established an ongoing review and analysis process. It serves as an integral component of our materiality assessment and analysis mechanism to ensure continued relevance and responsiveness.

Throughout the review and analysis of these issues, we have adhered to the "double materiality" principle. It dictates that if a sustainability issue poses a significant impact on society or the environment, and also on Xiaomi's strategic goals, value drivers, competitive position, and long-term value creation for shareholders, it will be considered as a material issue with potential ESG attributes.

Our materiality review and analysis aim to identify and consider key sustainability risks and opportunities and to achieve the following objectives:

- Identifying key sustainability risks and opportunities related to Xiaomi's business operations, cash flows, legal or regulatory responsibilities, and access to capital;
- Optimizing our sustainability strategy and aligning it with our business targets;
- Providing sustainability information for Xiaomi's broader business strategy, with a focus on sustainable growth;
- Determining the core issues to be included in our risk management, sustainability, and annual operations;
- Engaging internal and external stakeholders to collect diverse opinions;

- Predicting sustainability issues that may impact Xiaomi's development trajectory; and
- Setting targets to enhance Xiaomi's business performance and efforts in sustainable development.

Organizational scope and boundaries:

- Our materiality review and analysis keep a global perspective as well as an eye on operations in specific regions.
- The review and analysis cover various business units, including smartphones, the Internet of Things (IoT) and lifestyle products, and Internet services, across the Group.
- We take into account key issues throughout the value chain, including our own operations, the upstream (such as sustainable supply chains), and the downstream (such as waste management and the circular economy).

Identifying Potential Issues

In the initial stage of the materiality assessment, the ESG team, the risk management team, and senior management collaborated to conduct a comprehensive review of information sources to create a broad list of potential material issues. During the process, we considered:

- Risks and opportunities at all levels from business operations to the Group;
- Industry practices and comparison with industry benchmarks;
- Internal data reflecting business operations and sustainability impacts in the year;
- International standards, conventions and demands of major regulators, including the Paris Agreement[3], the Guiding Principles on Business and Human Rights[4], and the G20/OECD Principles of Corporate Governance[5];
- Influential evaluation indices for corporate ESG performance, such as the Dow Jones Sustainability World Index, and ESG disclosure frameworks and scoring methodologies, such as that of the Carbon Disclosure Project (CDP);
- More extensive ESG trends and challenges around the globe; and
- Media reports on Xiaomi's business areas.

We have given comprehensive evaluation of the risks and opportunities within Xiaomi's context arising from material issues and relevant external trends. This includes assessing the risk of increased green transition costs associated with the issue of waste management and the circular economy, identifying the opportunity of potential cost savings and efficiency enhancement in the issue of product and service quality, and recognizing the potential for new revenues generated by green products and sustainable practices in the issue of climate mitigation and adaptation. Moreover, we value the engagement of external stakeholders. We have effectively defined and explained the issues in communication to solicit valuable feedback. This process entails identifying stakeholders who have a significant impact on Xiaomi, with a special focus on those who exert the most influence on us, such as investors, users, supply chain partners, and the media.

3 The Paris Agreement: https://unfccc.int/sites/default/files/resource/parisagreement_publication.pdf
4 Guiding Principles on Business and Human Rights: https://www.ohchr.org/sites/default/files/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf
5 G20/OECD Principles of Corporate Governance: https://doi.org/10.1787/ed750b30-en

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Collating, Determining, and Prioritizing Issues

We strongly believe that utilizing business strategies to address ESG issues is a fundamental approach to achieving sustainable development. To gain deeper insights into these issues, we have engaged in extensive communication with internal and external stakeholders. During the process, we utilized various methods, such as questionnaire surveys (with 2,046 valid responses collected in this survey), on-site visits, essential meetings, telephone consultations, and online platform communication. These efforts have allowed us to further refine the list of material issues and ensure a balanced and comprehensive representation of Xiaomi's sustainability issues from a contemporary perspective.

In the mid-stage of the materiality assessment, we placed particular emphasis on the internal relationships and potential overlaps between material topics, their alignment with Xiaomi's business growth targets, and potential interactions. By gaining insights into these complex relationships, we accurately identified potential systemic risks and opportunities. Additionally, we took a holistic view to examine how each issue interacts with other factors, thus affecting both Xiaomi's business operations and the well-being of stakeholders. This process includes:

- Demonstrating the relationships between each issue and relevant business roles, designing and implementing a quantitative review and analysis mechanism;
- Identifying the stakeholders associated with each issue and assessing the significance of the impact, with a focus on the impact on Xiaomi's value creation;
- Assessing the strategic importance of each issue in implementing strategies, responding to current and future risks, identifying market opportunities, and fostering business development.
- Assessing and quantifying to the utmost the actual and potential sustainability impacts of each issue, as well as their relevance to the Group's major risks.

In this way, we have determined the material issues and their priorities:

Material Issue	Governance and Key Business Areas Demonstrated
Product and service quality	Smartphones, IoT and lifestyle products, and Internet services
Exploration and accessibility of technology	Smartphones, IoT and lifestyle products, Internet services, and innovative business
Sustainable supply chain	Smartphones, IoT and lifestyle products, and innovative business
Climate mitigation and adaptation	Smartphones
Data security and privacy protection	Smartphones, IoT and lifestyle products, and internet services
Talent development	Management infrastructure
Corporate governance	Management infrastructure
Business ethics	Management infrastructure
Waste management and the circular economy	Smartphones and IoT and lifestyle products
Natural resources and biodiversity	Management infrastructure
Social welfare and community engagement	Smartphones, IoT and lifestyle products, and innovative business

We have also determined the following three key issues and analyzed their strategies and measures:

Material Issue	Commitment	Importance to Xiaomi's Long-Term Value	Strategy
Product and service quality	As always, we are oriented by quality and strive to be the industry's first in quality and reputation. We treat users wholeheartedly, place users at the center, and make friends with them. We provide users with direct and effective solutions and warm service. We emphasize quality in every aspect, including R&D, manufacturing, marketing, sales, delivery and service.	Product and service quality is the key to achieving long-term value and enhancing industry competitiveness. Superior quality can improve user experience and reduce resource waste and environmental impact caused by product damage.	We continue to deepen the quality reform, adhere to the principle of quality first, pursue industry benchmarks, and place users at our core. In this way, we ensure that every product meets the high standards of the Xiaomi brand and drive the Company's long-term development and brand reputation enhancement in the global market.
Exploration and accessibility of technology	At Xiaomi, we spare no efforts in practicing the mission that "we relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology." In 2023, we released a new technology strategy. We will put efforts into the underlying technology, adhere to long-term investment, deeply integrate software and hardware, and seek empowerment of Artificial Intelligence (AI). (Software X Hardware)^{AI}	To achieve long-term value for Xiaomi, it is necessary to promote innovation in all its business lines. To this end, we will continue our investment in research and development (R&D) and pursue more breakthroughs in self-developed technological innovation to provide customers with experiences at honest prices.	We are dedicated to technology fields with long-term value to human civilisation and insist on long-lasting continuous investment. We encourage innovation and the pursuit of technological excellence by articulating the Engineer Culture, and we advocate teamwork and the professional growth of engineers. Xiaomi's technology R&D presence has entered 12 technology areas and 99 segments, including self-developed operating systems, self-developed basic chips, and 5G mobile communication technology.

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Material Issue	Commitment	Importance to Xiaomi's Long-Term Value	Strategy
Sustainable supply chain	Wherever our suppliers operate, we seek to cooperate responsibly for win-win outcomes. We actively support the business and sustainability objectives of our global suppliers throughout our business and technology partnerships. We focus on the social and environmental impacts of our supply chain and respect the communities and ecosystems in which we operate. We ensure that we agree with our suppliers on protecting the environment, safeguarding employee rights, promoting employee health and well-being, improving production quality, and complying with business ethics. We also collaborate to address social and environmental issues arising from the use of raw materials.	The ultimate efficiency pursued by Xiaomi cannot be separated from the outstanding performance of its global supply chain partners. Sustainable supply chain management can effectively reduce Xiaomi's operating risks and enhance the stability and adaptability of its supply chain.	We have reached a consensus with our supply chain partners to focus on key areas such as protecting the environment, guarding employee rights, promoting employee health and benefits, improving production quality, and observing business ethics. We also collaborate to address social and environmental issues arising from the use of raw materials. We continuously adjust and optimize our supply chain business strategies and practices and urge our suppliers to improve their governance and risk management. We collaborate with suppliers by supervising, assisting, and communicating with them and promote the implementation of effective management Programs by suppliers. In this way, we ensure that Xiaomi's sustainable supply chain commitments are met and that the products and services delivered by Xiaomi to its users are in line with the Group's ESG strategy.

We believe in the symbiotic relationship between ESG considerations and business growth. Xiaomi excels at solving problems through business and efficiency. We have integrated the material issues identified into the Group's risk management strategy to ensure the applicability and consistency of the analysis results of them.

Participation of Management and Crucial Feedback

During the reporting period, the Group's Board of Directors and senior management team looked back on the materiality review and analysis process and fully discussed the results. Subsequently, they gave replies and provided recommendations for sustainable development actions based on a broader business strategy. Additionally, we took into account feedback from key stakeholders and industry experts regarding the results of the materiality review and analysis. We have implemented an ongoing communication mechanism to ensure the continual strength of our materiality review and analysis process.

Technology Created to Better Lives

Exploration and Accessibility of Technology

At Xiaomi, we regard the innovative technological core of our products and services as an crucial aspect of sustainable business operations. The development of Xiaomi's technology system began with an integrated technological innovation, progressed into autonomous technological innovation, and further delved into disruptive technological innovation to attain mastery and dominance of key technological domains. We continually push the boundaries of technology, seeking optimal solutions for technology and interaction. We have established an overall technical architecture with wide coverage, great span, and depth around six levels: Perception, Communication, AI, System, Computation, and Output.

With the support of an improved technological framework, we are committed to integrating multiple technological capabilities, increasing R&D investment, and providing users with more convenient, affordable, and widely applicable products and technologies. Xiaomi's technology R&D endeavors now span across 12 technology areas, including 5G mobile communication technology, big data, cloud computing, and AI. Furthermore, leveraging smart manufacturing, our efforts have expanded into robotics, unmanned factories, and smart electric vehicles (EVs), totally 99 segments. By the end of 2023, we had established 10 R&D centers and employed an R&D team of 17,800, accounting for 53% of our total workforce. Meanwhile, our R&D expenses reached RMB19.1 billion in 2023, up by 19.2% compared with the previous year. We plan to invest more than RMB100 billion in R&D over the next five years (2022–2026).

Simultaneously, we are committed to collaborating with partners to broaden technology education opportunities for a wider audience to promote digital inclusion, in addition to technological equality through extensive technological R&D as well as application efforts. Over the past decade, we have continuously delivered leading technology products to a growing user base, driven by deep underlying technological innovation and optimal efficiency throughout the entire chain. Through the Xiaomi Ecosystem product portfolio, we have also made unique contributions to global digital inclusion and technological equality development, establishing the world's leading consumer AIoT platform. To this end, we have upgraded Xiaomi's technology strategy, focusing on technology fields of long-term value to human civilization and insisting on long-lasting continuous investment.

Exploration of Technology

Product Innovation

Xiaomi HyperOS

In the era of everything interconnected, IoT devices involve a huge number of complex operating system branches. The presence of various systems and protocols often poses challenges to connectivity between ecosystems. In response to this challenge, in 2023, we consolidated the underlying operating systems of four systems — Xiaomi MIUI, Vela, Mina, and CarOS — into a unified solution known as Xiaomi HyperOS, a human-centered operating system for the "Human × Car × Home" smart ecosystem. The system is committed to achieving the following goals:

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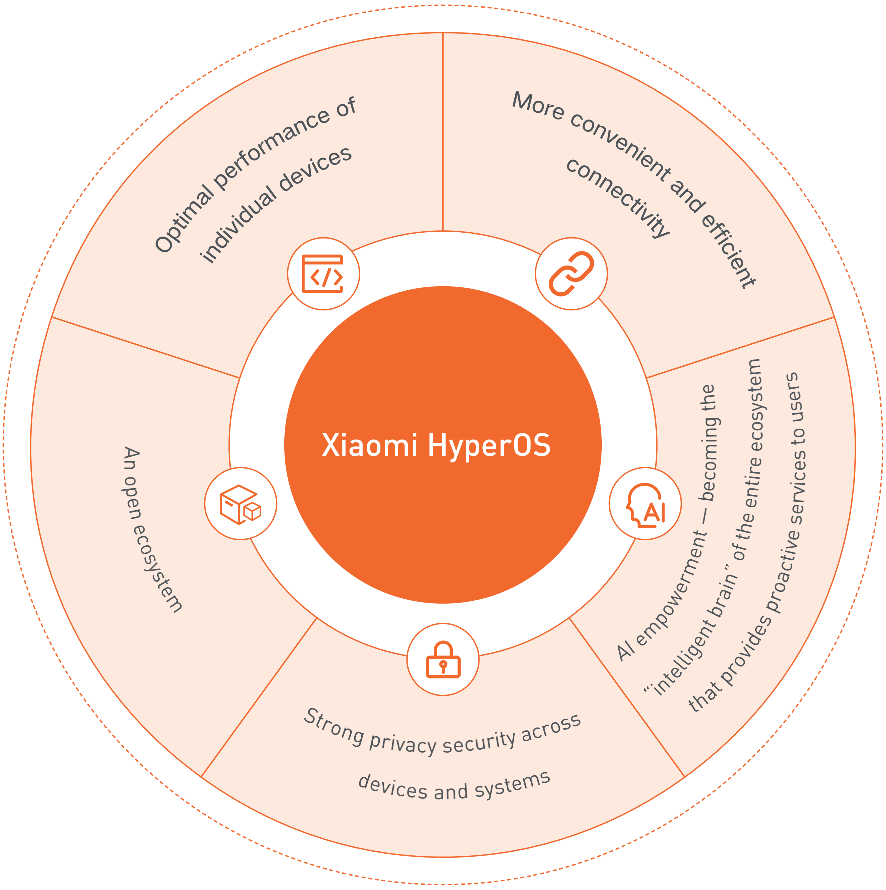

Xiaomi HyperOS, with a reconstructed underlying structure, maximizes the efficient utilization of the device hardware capabilities of Xiaomi's diverse product range. With underlying support for more than 200 processor platforms and more than 20 common file systems, Xiaomi HyperOS caters to hundreds of device categories and thousands of commodities, significantly enhancing the single-end performance of a device. Through precise hardware resource scheduling, Xiaomi HyperOS optimizes device performance and efficiency. On lightweight devices with limited arithmetic power, Xiaomi HyperOS delivers to users a smoother operating experience and superior energy performance with its advanced performance scheduling.

Xiaomi HyperOS facilitates seamless connection and real-time interconnection between devices, eliminating barriers between various hardware and harmonizing all connected devices. Xiaomi has independently developed Xiaomi HyperConnect, a cross-end interconnection framework that operates atop the core system. Xiaomi HyperConnect enables real-time networking and collaboration among ecological devices and also supports swift cross-device communication. Additionally, it offers features such as network discovery, data transmission, and message distribution, thereby providing users with an unprecedented Internet experience.

Xiaomi HyperOS deeply integrates large language model (LLM) technology and creates eight major subsystems including the AI subsystem. These subsystems establish an intelligent operating environment, in which the core AI subsystem bolsters individual devices' AI capabilities and makes the entire ecosystem smarter. This advancement enables devices to proactively comprehend user needs and respond accordingly. Leveraging LLM technology, the system can understand user habits across devices and offer personalized automation suggestions.

Xiaomi HyperOS is committed to the principle of openness and strives to foster an open smart ecosystem. We open the cross-end interconnection framework capabilities of Xiaomi HyperConnect to all application developers and smart hardware manufacturers. At present, over 9,000 smart hardware device manufacturers across more than 200 categories have access to this system. Xiaomi's self-developed Xiaomi Vela is also open-sourced for all IoT developers[6] to support the global developer community. For more information, please refer to the Xiaomi HyperOS Technical White Paper[7].

Everything Interconnected

In our strategic practice of the "Human × Car × Home" smart ecosystem, we have established the world's largest consumer-grade AIoT platform, leading global smart living through innovative models and continual enhancement of interconnectivity. Since the development of the Xiaomi ecosystem in 2013, our team has dedicated a decade of effort to harnessing algorithms in smartphones and AIoT devices. Our achievements include the bionic quadruped robot and MiLM-6B, our self-developed 6B large language model (LLM), which has been ranked first among LLMs with the same parameter scale in the reputable Chinese review lists C-EVAL and CMMLU.

Xiaomi's smart hardware is entering countless homes and penetrating various life scenarios. With the introduction of smart home products in dozens of categories, such as Xiaomi Smart Speaker, robot vacuums, and smart TVs, we have touched upon every aspect of users' lives. Xiaomi has become the world's largest consumer IoT platform, with 740 million devices (excluding smartphones, tablets, and laptops) connected to our AIoT platform, a year-on-year increase of 25.5%. The number of users possessing five or more devices (excluding smartphones, tablets, and laptops) connected to Xiaomi's AIoT platform has reached 14.5 million, a year-on-year increase of 25.3%. Moreover, the Xiaomi AIoT platform is the smart hardware ecosystem with the most comprehensive category coverage. It encompasses more than 200 major categories of smart home appliances that cater to more than 95% of life scenarios, continuously spreading intelligence. The interconnection of smart home products has delivered the utmost convenience and an unparalleled smart living experience to users around the world.

While leading the industry with our AIoT technology, we are committed to fostering technological innovation and advancement within our ecological chain partners. In November 2023, we hosted the IoT Ecosystem Partner Conference, where we unveiled the Open-source Sharing Program with our IoT ecosystem partners. Through initiatives such as the open-sourcing of Vela and the introduction of the Xiaomi HyperOS Connect technology brand, we strive to empower smart ecosystem partners, practitioners in the home industry, and individual developers to integrate seamlessly into the Xiaomi AIoT ecosystem and join hands to build the world's largest "Human × Car × Home" smart ecosystem.

Xiaomi EV

In December 2023, we unveiled our groundbreaking progress in five key technologies of smart EVs: E-Motor, Battery, Xiaomi HyperCasting Technology, Xiaomi Pilot Autonomous Driving, and Smart Cabin. We are reimagining the technology stack that defines the automotive industry, starting with the underlying core technologies, to ensure that Xiaomi EV leads in all aspects of the transportation industry's evolution to a more sustainable future.

- Collaborating with globally leading teams, we have developed Xiaomi's HyperEngine series, V6, which is featured in Xiaomi's first full-size high-performance eco-technology sedan, Xiaomi SU7 Series. The Xiaomi HyperEngine V6 delivers a maximum power output of 220 kW PS and a maximum torque of 400 Nm, while the Xiaomi HyperEngine V6s achieves a maximum power of 275 kW and a maximum torque of 500 Nm. The two HyperEngines boast a speed of 21,000 rpm, positioning them at the forefront in the world.

6 Xiaomi's IoT developers' platform: https://iot.mi.com/vela?language=en
7 Xiaomi HyperOS Technical White Paper: https://cdn-file.hyperos.mi.com/hyperos-file/小米澎湃OS技术白皮书V1.0.pdf

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- We have developed a new super 800-V silicon carbide high-voltage platform, with a maximum voltage of 871 V. With whole-link and no-dead-angle thermal safety protection, we have adopted the world's most stringent thermal failure safety standards: At a temperature of 55°C, a fully charged battery can prevent heat dispersion, even in the absence of an operational water cooling system, thereby optimizing energy efficiency. For quality assurance, we have established our own battery pack factory to guarantee the performance and quality of the battery from the source.

- Xiaomi's self-developed 9100t Xiaomi HyperCasting Technology Cluster represents a significant advancement in production efficiency and energy conservation compared to traditional automobile manufacturing, thus maximizing material efficiency. Collaborating with a national key laboratory of materials, we have developed Xiaomi Titans Metal, the Xiaomi Hyper Die-Casting alloy material, using our self-developed Multi-Material Performance Simulation System through tens of thousands of simulation experiments. This alloy ensures robust structural components of the vehicle and guarantees stable performance for the body. These achievements demonstrate Xiaomi's unwavering commitment to environmental protection, efficiency, and safety in automobile manufacturing. Leveraging Xiaomi HyperCasting Technology, Xiaomi EV prompts a new era of sustainable development as an environmental pioneer in the industry.

- In the Xiaomi Pilot Autonomous Driving, we have developed three key perception technologies for smart driving, Adaptive BEV Technology, Road-Mapping Foundational Model, and Super-Res Occupancy Network Technology. Our Adaptive BEV Technology is the first of its kind in the industry, which facilitates more precise parking scenarios and wider urban scenarios. Our Road-Mapping Foundational Model learns complex road conditions and drivers' driving habits to draw more rational driving trajectories. Our Super-Res Occupancy Network Technology can identify an extensive range of irregular-shaped obstacles.

- Based on Xiaomi HyperOS, Smart Cabin has built a unified visual interaction system and created a comprehensive shared ecosystem spanning from software to hardware, which provides users with the most convenient driving experience. The Smart Cabin marks that Xiaomi's "Human × Car × Home" smart ecosystem has officially closed the loop.

Smart Manufacturing

The rise of smart manufacturing and digital technology is driving greater efficiency in resource utilization, reducing waste reductions, and facilitating ecological restoration. As an industry spearhead, Xiaomi is committed to delivering innovative solutions to the manufacturing industry, enabling a fully digitalized management system across the entire value chain. By implementing precise product operations and management, we not only reduce costs but also increase productivity, highlighting the crucial role of digital efficiency in bolstering business competitiveness.

From Smart Factory to Smart Manufacturing

Xiaomi actively participates in the intelligent transformation of the manufacturing industry through practice, investment, and collaborations. In the year, Phase II of Xiaomi Smart Factory was completed and delivered as a whole. By 2024, upon the completion of the installation and commissioning of all production lines, the company will have a capacity of up to ten million smartphones annually. Our Smart Factory, equipped with automated production lines, has achieved fully automated lights-out production across various processes including production management, mechanical processing, packaging, storage, and transportation. Our smart production line systems and technologies are highly self-developed. As of December 31, 2023, Xiaomi had obtained more than 520 patents in the field of smart manufacturing worldwide. Xiaomi Smart Factory also serves as an "experimental field" for new processes, new materials, new technological pre-research, smart equipment R&D, and automated production.

Xiaomi Smart Factory implements an innovative "module + platform" approach, effectively tackling some of the industry's most intractable challenges and highlighting the immense potential of fully automated production lines. The Smart Factory is specifically designed to match the needs of different materials and manufacturing processes, allowing for flexible production and quick assembly line alterations at the user end. The solution offers tremendous flexibility and allows for quick adaptation to the constantly changing market requirements. This creates a standardized manufacturing platform that could be adopted to accommodate diverse production needs and dynamic market demands.

By combining modules in different ways, over 180 types of process equipment have been installed in the assembly line which led to a reduction in line-alteration costs and an expedition to the delivery cycle. The equipment module reuse rate has increased from 50% to over 80%. In this agile production model, the first-pass yield rate has been raised by over 5% compared to the conventional process, with a production efficiency boost of approximately 60%, while significantly reducing unit equipment processing capacity and energy consumption.

We have been exporting our smart manufacturing solutions to empower our partners in the manufacturing sector. Several of our supply chain partners have already adopted the full set of Xiaomi's smart production process and operation system to facilitate their transition towards a highly efficient, low-energy, and intelligent manufacturing hub. We remain committed to leveraging our unique experience in smart manufacturing to drive positive change. While enhancing the upstream manufacturing sector, we will collaborate with numerous downstream eco-chain companies to support China's transition and upgrade towards smart manufacturing with Internet efficiency.

Digital and Smart Operations

Digital efficiency has gradually become a key differentiating factor in enhacing the competitiveness of the Group and the country. At Xiaomi, we have developed a range of advanced digital tools, including the AIoT platform, retail management platform, and smart manufacturing and supply chain management platform. These technologies enable us to create a data loop across the "supply chain and manufacturing — distribution — product — user" cycle. Utilizing big data and AI algorithms to build a central control platform, we apply intelligence in coordination, prediction, and operations in multiple scenarios, enhancing the overall efficiency of the industry.

- In the production stage, we establish a data-based factory by integrating data across "equipment — industrial control — data acquisition and monitoring — operational management — enterprise." This approach enables automated production, enhances production efficiency, and reduces material and energy consumption in product processing.

- In the supply chain, Xiaomi values close collaboration with our ecosystem partners, including parts suppliers, manufacturers, logistics companies, and more. Together, we develop a digitalized management system to facilitate information sharing and synchronized operations, optimizing the efficiency of the entire value chain.

- In the retail end, Xiaomi's new retail model has revolutionized the industry by fully digitizing every aspect of the entire process and all underlying elements, encompassing people, goods, stores, rewards, promotions, and training. We have implemented the traffic models, and user management models to establish an end-to-end digitalized closed loop, empowering data-driven decision-making and business growth. Our new retail model employs a unified set of pricing, models, and systems capable of addressing diverse levels, industry trends, and market demands, successfully integrating digital infrastructure into sustainable development innovation solutions (Ecomagination).

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Extreme efficiency empowering climate actions

- Digitalization and data analysis: We leverage advanced data analytics to optimize resource allocation, reduce energy consumption, and minimize waste generation. In the future, we will further strengthen data-based resource efficiency models, including climate-related indicators and analysis, to guide sustainable decision-making and operations.

- Value chain climate adaptation: By utilizing AI-based stock allocation models, we can meet consumer demands and enable big-data-based product selection, smart stock allocation, and one-click sourcing. We can also predict and mitigate the impact of climate-induced disruptions on our supply chain. By optimizing logistics operations and improving inventory turnover and shipping efficiency, we reduce carbon emissions and help our suppliers adopt climate-resilient initiatives.

- Product lifecycle management: Through end-to-end digitalization, we take a "cradle-to-cradle" approach to managing product lifecycle, reducing the generation of waste and minimizing the demand for new and virgin resources.

- Guiding consumers toward making sustainable choices: By providing transparent digital flow data about products, we offer information on environmental footprints and incentives for consumers to foster sustainable consumption choices and behavior and create a more enjoyable customer experience.

- Smart inventory management: Leveraging AI and big data analysis for smart inventory management ensures efficient stock levels to meet consumer demands while minimizing excess inventory and emissions related to storage and waste generation.

Industry-University Cooperation

At Xiaomi, we have long been committed to fostering deep integration of industry, academia, and research, and cooperated with universities and colleges to nurture young students' professional strength, innovation ability, and problem-analysis and problem-solving capabilities. Through the establishment of the Xiaomi Workshop in partnership with many universities and colleges across China, we focus on seven key cooperation areas (including the Xiaomi Lecture, technology competitions, joint innovation training, university-level forums for master and doctoral students, and collaborative industrial research). These initiatives aim to empower student employment, incubate innovation and entrepreneurship projects as well as the transformation of industrial research outcomes, and advance new engineering disciplines based on the integration of industry and education.

Robotics

We have developed series of bionic robot for consumers and developers. By the end of 2023, Xiaomi's bionic robot series had been granted more than 140 valid patents worldwide. More than 270 applications are under review, among which Humanoid Drummer and the bionic robot have been showcased in leading industry journals such as IEEE Spectrum. Throughout the year, the Xiaomi Robotics Team collaborated with universities and colleges to organize numerous robotics competitions and engage in joint research on the intelligent control and intelligent perception of quadrupedal robots. Additionally, we have been active in voicing at international conferences such as the World Robot Conference 2023 to bolster industry development.

Xiaomi's Accessibility of Technology

Vision for Accessibility of Technology

In the midst of the burgeoning digital era, we remain steadfast in our mission to "let everyone in the world enjoy a better life through innovative technology" and "bridging the digital divide and making information accessible for all." Driven by these guiding principles, we are dedicated to building an equal and inclusive digital ecosystem. Over the years, we have been unwavering in our commitment to maintaining our hardware net profit margin below 5%, thus reducing the price threshold for technological products and making technology accessible. With our business footprint spanning over more than 100 countries and regions around the world, we strive to dismantle economic and geographic disparities, ensuring that the benefits of technological advancement reach every corner of the globe.

At Xiaomi, we embrace the values of inclusivity, diversity, and equality. We endeavor to make our products as equal, inclusive, friendly, and accessible as possible, enabling everyone to benefit from the support of Xiaomi's technology and enjoy a better life. For more than a decade, we have prioritized inclusive technology. With continued efforts in accessibility features and adaptations, our focus has expanded from product accessibility to a human-centered support system for people with disabilities. Furthermore, recognizing the information barriers faced by people with disabilities, we are committed to creating a barrier-free digital world for this group by providing easy-to-use smart terminals and accessible information services.

Inclusive Technology

At Xiaomi, we uphold the concept of inclusive technology and have always been committed to promoting the mission of inclusive technology through technological development and application. Our goal is not only to enable people with disabilities to benefit from technology but also to offer technology experiences and tools that cater to the needs of users facing difficulties in life due to social exclusion, and situational disabilities[8]. We prioritize the development of a Human-centered Accessibility Support System, aim to gain insights into the inconveniences caused by various disabilities in life from a more diverse perspective, and constantly deepen our understanding of the needs of people with disabilities and their situational contexts. Leveraging AI technology, Xiaomi HyperOS now offers comprehensive services for people with disabilities from three aspects: vision, hearing, and body with auxiliary features such as accessibility haptic feedback, Xiaomi Ambient Sound Recognition, and AI Dialing Assistant, we provide a richer experience for users' personalized needs. The Human-centered Accessibility Support System has been integrated into Xiaomi HyperOS, providing users with an all-around barrier-free interaction experience. With rich ecological connections and the voice control of AI Assistant, it also serves as a conduit for breaking down barriers and promote social integration.

Hearing Inclusion

At Xiaomi, we have been dedicated to solving communication challenges in hearing impairment scenarios. Relying on speech-to-text technology, the Xiaomi Sound Recognition Function (real-time subtitle) and the AI Dailing Assistant solve the communication inconvenience in daily face-to-face communication scenarios such as traveling and shopping, as well as in call scenarios, thus significantly improving users' communication experience.

Moreover, the Ambient Sound Recognition function effectively supplements users with a hearing impairment in perceiving ambient sound information. This technology recognizes 14 key ambient sounds, including fire alarms, baby cries, and kettle boiling sounds, providing critical safety and warning information to users with a hearing impairment. We have extended this feature to smart home devices (for example, Xiaomi Smart Family Screen), which allows users to monitor sounds of concern to users in their homes and send real-time notifications. This provides additional security for users with a hearing impairment in their homes.

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

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Xiaomi's product design covers a wide range of usage scenarios for people with a hearing impairment. For users unable to use the voice interaction function, the gesture control feature of the Mijia DreamE Light allows for customized control of smart home devices through simple gestures, providing an efficient and easy-to-use alternative. Users with a hearing impairment can easily control smart home devices, free from voice commands or cumbersome smartphone operations.

Vision Inclusion

At Xiaomi, we have put efforts into enhancing independent and private information processing technology for visual impairment scenarios, catering to users' operational needs. Our OCR[9] image- and text-reading technology solutions empower users with a visual impairment to access text information from paper documents or product packaging with simplicity and precision. We have also streamlined the interaction of our text-reading technology, implementing automatic reading and segmented reading to simplify the text detection process. These enhancements improve the efficiency and accuracy of users' screening and processing of information in visual impairment scenarios. To better cater to the needs of users with a visual impairment, we have provided accessibility functions such as Read Aloud with Selection, Screen Zoom, and Text Contrast.

Body Inclusion

At Xiaomi, we harness the capabilities of a technology company to assist people with a physical impairment in overcoming life barriers and lead convenience and a fun life. We have launched the first Android phone with voice control support, empowering users with a physical impairment to control their mobile phones through converting hand operation movements into voice commands. This innovation make it easier for them to navigate their daily lives.

We have also provided an accessible "Touch and Hold Delay" feature. It ensures that extended taps will not be mistakenly recognized as long presses, alleviating difficulties in operating mobile phones in situations involving physical impairments.

Accessibility Application in Smart Homes

We have introduced the new Xiaomi HyperMind technology in Xiaomi HyperOS, revolutionizing smart homes with its "Active Intelligence" innovation and significantly enhancing the convenience of life for people with complex disability needs. Transcending the limitations of the traditional command-based smart home, HyperMind leverages its perceptual capabilities encompassing the environment, vision, hearing, and behaviors upon the user's permission to learn the user's habits and preferences, based on which it makes autonomous decisions using AI and proactively delivers services in appropriate scenarios. For users with limited perception, memory, judgment, and decision-making abilities, HyperMind serves as an active assistant even before the user realizes the need or when the user fails to complete the operation due to physical limitations. This proactive assistance alleviates the user's difficulty in adapting to the operation of the smart home and enhances the autonomy of life.

Continued Innovation in Inclusive Technology

Leveraging Xiaomi's multifaceted and diversified leading technologies, we hosted the fourth Hackathon Technology Competition of the Group this year. With a deep understanding of societal needs, Xiaomi's engineers contributed Xiaomi wisdom to tackling accessibility challenges. They introduced AI Identification Glasses that feature multi-modal recognition and developed ambient sound detection technology and gesture interaction intelligent control technology, practically satisfying the needs of users with disabilities. Xiaomi's engineers remain committed to innovating and applying accessibility technology to benefit millions of people with disabilities through technological advancements.

9 OCR: Optical Character Recognition. It refers to the technology for printed characters that optically converts the characters in a paper document into black-and-white dot-matrix images and then converts the characters in the image into texts using recognition software.

Technology Ethics and Digital Inclusion

Technology Ethics

At Xiaomi, we place significant emphasis on gender, religious, and cultural inclusion in the application of AI technology. This approach guides us in designing products and services that prioritize the needs of all users. Under the guidance and supervision of the AI Ethics Committee, we are dedicated to upholding ethical guidelines and adhering to regulatory requirements that promote digital equality in the application of AI technology. We have established and implemented the Xiaomi AI Ethical Principles, which address AI law, privacy, security, transparency, and accountability, and apply to Xiaomi's product development and applications. Through comprehensive and systematic training, we have raised the awareness of digital inclusion in every employee.

In the field of AI, we have established the standards of Xiaomi Corporation for products accessing LLM algorithms. These standards are designed to govern the development and application process to foster the healthy, ethical, and secure development of Xiaomi's products accessing LLM algorithms and to prevent the security, privacy, and compliance risks in the development and application process. The standards are aligned with the Cybersecurity Law of the People's Republic of China, the Data Security Law of the People's Republic of China, the Personal Information Protection Law of the People's Republic of China, and the Law of the People's Republic of China on Scientific and Technological Progress. We:

- Implement compliance processes for algorithms' compliance assessment and pre-launch security testing;
- Formulated comprehensive security compliance requirements covering LLM sources, algorithm development process, training data[10], model application and deployment, as well as specific requirements to safeguard users' rights and interests with respect to the handling and transparency of users' personal information;
- Remove biased and hate data during the raw data cleaning phase;
- Collect data from different sources and scenarios to increase the diversity of data sources and avoid possible data bias and discrimination;
- Utilize annotated data to train specialized security models to assess whether the generated content exhibits bias and discrimination, and continuously iterate LLMs by means of reinforcement learning; and
- Evaluate model performance using multiple metrics in across various dimensions, prioritizing not only the accuracy and utility of the generated content but also on its security and fairness.

Elderly Friendly Retrofits

At Xiaomi, we are actively bridging the digital gap for the elderly cross, facilitating their integration into the digital era and enabling them to reap the benefits of digital advancements. Tailoring our solutions to their specific needs, we have introduced numerous elderly-friendly retrofits across our mobile phones, smart TVs, and smart home devices. For users going out or facing difficulties in the use of mobile phones, features such as Family Guardian offer invaluable support. Moreover, we simplified the operation path of the software system, making it smoother and simpler to use smart devices. Through features such as High Volume Mode, Triple-Click Zoom, and Read Aloud with Selection, our elderly-friendly design delivers a new experience for elderly users to comfortably navigate smart devices.

10 Training data: All data that are directly used as inputs for model training, including input data from training processes such as pre-training, supervised fine-tuning, and reinforcement learning.

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Protection of Minors

At Xiaomi, we always put the protection and healthy development of minors in the first place. As per the Law of the People's Republic of China on Protection of Minors, the Cybersecurity Law of the People's Republic of China, the Personal Information Protection Law of the People's Republic of China, and other pertinent laws, we have developed the Xiaomi Account Rules on the Protection of Children's Personal Information[11], which outline that when collecting, using, transferring, or disclosing the personal information of minors, it is mandated for us to inform and obtain the consent of their guardians. These rules also delineate the information collected and its usage on smartphones, smart TVs, and audio devices.

In the Chinese mainland, Xiaomi TV's Kids Channel adheres to the mission of "creating a children's platform for fun companionship and learning through play to ensure that every child enjoys a wonderful childhood" and focuses on the four value aspects: safety, growth, fun, and companionship. With refined service design and technological innovation, it ensures the safe and healthy development of minors in the digital world. Our "Pure Mode" and rated and age-graded design customize our content recommendations to ensure that we accurately locate appropriate content that meets children's cognitive and comprehension abilities. In the year, we launched the Museum Cinema popular science channel, enlightenment courses, interactive thinking exercises, digital illustrated books, and other quality resources. For details, please refer to the "Support for Education" section in this Report.

In the Chinese mainland this year, we upgraded the content of Xiaomi Kids Channel under the guidance of the industry's first Blue Paper on Film and TV Viewing Guides for Minors jointly developed by a university. The upgrade, which covered our five major hardware products, namely, smartphones, smart TVs, tablet PCs, stereos, and children's watches, further enhanced guardians' guidance and supervision on minors' digital behaviors. We have also launched anti-addiction functions, such as film viewing time control, eye protection mode, the child lock, and posture reminder, to protect children's physical and mental health in an all-around way.

Product and Service Quality

Product Quality

We advocate the Big Quality Concept of User-centric, Integrating Product Quality, User Experience and Service Quality, with Full Participation and Closed-loop Management Across the Lifecycle, and always implement the management concept of Quality Is the Lifeline of Xiaomi. We have established a comprehensive quality management system for our quality management targets, as our relentless pursuit is to deliver the ultimate product quality and service experience to our users. The Quality Committee of Xiaomi Corporation (the "Quality Committee") coordinates the quality management of the whole Group and formulates the Group's quality policy, objectives, quality management mechanism and requirements. Building upon this foundation, each business line continuously improves its quality management methods and measures, adhering to the ISO 9001 quality management system standards. Throughout the year, our business units of smartphones, tablets, laptops, home appliances, smart TVs, and IoT products either obtained or maintained ISO 9001 management system certification.

11 Xiaomi Account Rules on the Protection of Children's Personal Information: https://static.account.xiaomi.com/html/childPrivacy/en_US.html

Product Quality Management

At Xiaomi, we always insist on providing amazing products with honest prices. We continuously strive to maximize product quality and user experience by refining the quality management system, improving the management process, and performing procedure-based, standardized, and IT-based quality management. In 2023, we reinitiated the quality reform, upgrading the focus to "raising the bar and striving to be an industry benchmark." As part of this effort, we have issued the Quality Organization Construction Guidelines of Xiaomi Corporation and guided each business unit to set up a Business Quality Committee. In this way, we established a robust quality management organization for the business units and ensured standardized and procedure-based quality undertakings.

We have established a quality management system with distinct Xiaomi characteristics in light of Xiaomi's business model. This year, we introduced an updated program document, the Group Quality Manual 2.0, adding strategic elements such as quality planning and medium- and long-term objectives. Aligned with the Group's development strategy of the "Human x Car x Home" smart ecosystem, we have devised a three-year quality plan with specific targets. Our objectives include enhancing comprehensively improving the maturity of our business quality management, establishing an industry-leading business high-quality delivery system and a high user experience assurance system, listening to and understanding users' needs, improving quality expertise across the business chain, and continuing to foster a quality culture that puts "quality first" among all employees.

We have adopted and optimized the IPD[12] process system establish Mi-IPD, a closed-loop system aimed at enhancing whole-link hardware quality and experience. The system is designed to expedite the product cycle, from conceptualization to market launch, through cross-departmental collaboration and refined project management. Throughout this process, we remain committed to continuous improvement in product quality and user experience. We deeply integrate key departments such as marketing, development, supply, manufacturing, service, finance, and procurement, creating a flexible and efficient cross-functional project team.

In terms of quality management, the cross-departmental team conducts predictive analyses of fault feedback ratios (FFRs), effectively identifying and preventing potential homogeneous problems. This approach enables issues to be resolved before launch, thereby reducing product risk and improving customer satisfaction. By leveraging the EWP (Early Warning Program) alongside with medium- and long-term closed-loop analysis, we monitor every aspect of the product from design to production for quality and continuous improvement, fortifying our quality management system. Xiaomi's quality responsibility division and review mechanism ensures individual accountability for problem resolution and the development of targeted quality improvement strategies. This accountability-to-individual management approach improves the efficiency and accuracy of our problem-solving efforts. In addition, the seamless coordination between our R&D and service ensures that direct transfer of customer feedback to the quality assurance team, allowing for precise product quality enhancements that align with market and user needs.

With these measures, we have created an all-around quality management closed loop from early warning to problem-solving, from responsibility tracing to continuous improvement. This robust closed-loop system enables swift responses to market and user feedback, reduces the likelihood of quality accidents, and enhances internal management efficiency and effectiveness, thus propeling us towards higher quality management objectives.

During the year, we received 32 external awards for quality, including a CAQ Quality Technical Award from the China Association for Quality and three Business Improvement Case Awards from the China Quality Club. During the reporting period, Xiaomi's products did not experience any product quality accidents due to health or safety issues, and the Group did not experience any product recall events in domestic or international markets.

12 IPD: Integrated Product Development. The IPD management system encompasses the complete process of product planning, development, and lifecycle management from customer requirements to product retirement.

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Product Quality Improvement Initiatives

In 2023, we completed 249 product quality improvement projects, including the Global Continuous Quality Improvement Project for Redmi Products, the Mobile Phone Manufacturing Yield Improvement Project, the Notebook Quality Improvement and Enhancement Project, the Critical Quality Improvement Project for Cabin Voice, and the Tumble Washer Noise Improvement Project. These projects cover smartphones, tablets, laptops, major appliances, smart TVs, and IoT products.

For smartphone products, we have implemented a smartphone hardware quality system that integrates the four dimensions of design, simulation, testing, and after-sales in a closed loop. This structured approach has enabled a science-based and sound quality index system. During the year,

- We have achieved a positive feedback rate of over 99% on e-commerce platforms, and the net promoter score (user experience surveys based on product quality) has increased by over 20% for three consecutive generations.
- Through comprehensive enhancements to our camera structure reliability simulation process, we have developed science-based and leading reliability analysis methods and analysis capabilities, effectively pre-empting reliability risks.
- We have completed the construction of simulation systems in key areas such as touch control on smartphone displays and device structure. These systems have been integrated into the project development process with continuous iteration and upgrading. As of the end of 2023, Xiaomi's smartphone simulation system had undergone over 2,000 simulation iterations and intercepted over 450 risks.
- We have established an abnormality management mechanism for all product lines to address challenges in product line problem management. We performed closed-loop management in design, testing, production, materials, and processes. Furthermore, we have proposed special studies on various technologies to address different hardware issues and fully implemented them.
- We focus on developing and optimizing the quality index system. By establishing information technology and intelligent standards, we have continuously optimized our R&D quality. As a result of these efforts, the overall FFR of our smartphone products decreased to 36% compared to the previous year.

For wearable products, we have undertaken several projects aimed at optimizing pain points and improving hardware and software quality. These projects target Bluetooth rate, battery life, app experience, charging and discharging, and switching on and off. As a result, the FFR of our watch series decreased by an average of 57% during the year.

In 2023, We have launched a battery quality improvement project. In 2023,

- To extend the battery life, we have optimized the degradation of the core system materials by implementing a multi-scenario battery health maintenance strategy.
- We have developed a battery cycle aging estimation strategy. Through the integration of Xiaomi's self-developed Starfish algorithm and big data models, we effectively enhanced battery quality and smartphone endurance.
- We introduced the Xiaomi Starfish algorithm. The Redmi K70E smartphone achieves 90%[13] battery capacity retention under heavy-duty scenarios[14].

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13 90%: The battery cell presents a capacity retention rate ≥ 90% for 1,000 heavy-duty long cycles under a standard laboratory environment. The data is derived from the Xiaomi Lab, and the actual operation may vary slightly depending on the test environment, conditions, and other factors.

14 Heavy-duty scenario: It refers to the higher discharge current generated when the high energy consumption features of a smartphone are in use.

Quality Awareness Enhancement

We prioritize the development of employee quality awareness. This year, we launched online and offline quality training courses covering the Group's quality system, product safety compliance requirements, quality management system, and quality management tools. These courses aim to instill Xiaomi's core values in quality within our workforce and improve their quality awareness and professional capabilities. In 2023, we conducted general and specialized quality courses and tests for the quality staff and core position holders, along with core specialized courses for international business personnel. During the reporting period, we introduced the Group Quality Manual 2.0 and organized a "Quality Quiz for Everyone." A total of nearly 28,000 people completed and passed the quality assessment.

The continued growth of Xiaomi hinges on our professional quality management team. Therefore, we have accelerated the cultivation of quality management professionals through the certification of quality managers of the China Association for Quality (CAQ), Six Sigma Black Belt and Green Belt, and Performance Excellence Self-Assessors.

Service Quality

At Xiaomi, we are committed to providing user-centered service. We take multiple measures to continuously expand our service offerings and always prioritize the swift and effective resolution of user issues. To enhance service quality and bolster each department's service quality management, we have instituted special performance indicators for the service department. Adhering to the SMART (Specific, Measurable, Achievable, Relevant, and Time-Bound) criteria, we have fortified our service quality management across multiple dimensions. In the process of determining and handling quality incidents, we integrate service quality management with business quality improvement. We summarize lessons from quality accidents and promote the experience of service quality improvement, thereby comprehensively enhancing the quality awareness of all employees and service providers.

In terms of the process system, we have established and optimized the Issue-To-Resolution (ITR) process system[15] to streamline our response to user feedback and enhance problem resolution efficiency. This system facilitates closed-loop quality management from identifying problems to resolving them, thereby delivering Xiaomi's quality service to customers and significantly improving user experience.

For user inquiries and complaints, we adopt the approach of immediate responses and mobilize resources from all departments to ensure efficient response and accurate, prompt, and reasonable resolution of all user issues. We review customer complaints every week and analyze them across multiple channels and dimensions, take improvement measures, and monitor their effectiveness. To facilitate user communication, we have established multiple channels, including online tools and stores, to actively address all customer concerns. Leveraging the ITR process system, we address user issues to continuously improve the user experience.

In terms of IT, we have implemented targeted measures to elevate the customer service experience through technological innovation. Recognizing the growing demand for consultation and warranty, we have meticulously developed an online service system with processes for display and inquiry. Our goal is to provide users with a straightforward and easy-to-use platform, where they can easily access the required product information, solutions, and warranty status. In 2023, we displayed details of refunds and charges and corresponding explanations to customers on our official website, ensuring transparency of customer service information. This has resulted in a 33% reduction in customer complaints over refund information and relevant issues.

15 The ITR process system: The construction method and management process for an Issue-To-Resolution customer service system. Specifically, it refers to a customer-centered service process from problem identification to problem resolution, thus creating a closed loop of service in an end-to-end manner.

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In our stores, we made face-to-face interactions with users through user symposiums and exchanges as well as visits by product/R&D engineers to gather and address user concerns while refining our service offerings. Throughout the year, we organized 18 user forums, gathered 307 pieces of user feedback, solved more than 230 practical problems, and gained insight into the real needs of users. We also focus on catering to the personalized user needs and invite users to engage with Xiaomi's business departments to explore future design possibilities.

We always adhere to the spirit of "making friends with users" to enhance the overall service awareness of our employees and improve the service quality of the Group. By integrating the ITR process into Xiaomi's service process and personnel training, we ensure that our service team can swiftly respond to user needs. We proactively track and quickly address user needs, optimize user experiences, actively explore service solutions, and achieve consistent and intensive service coverage. Moreover, we provide tailored product technical guidance and regular training to continuously enhance the professionalism and service of Xiaomi's service team.

We go beyond promoting the quality of our employees' services to a high standard. We have established and implemented a system of rewards and penalties to incentivize our partners in terms of service quality and attitude. We offer rewards to outstanding partners who deliver top-notch services. Conversely, for partners who fail to maintain service quality, we will impose graded penalties based on the severity and impact of the incident, aiming to reduce the complaints stemming from partners.

Retail Services

We have continuously strengthened the service capabilities of our offline stores, expanded our service network coverage, and enhanced the accessibility of our user services. Throughout the year, we created a refined management system for store service indicators and established a closed-loop management mechanism from service quality monitoring to improvement. In addition, by improving trainer management and the store training mechanism, we deeply integrated the training content with frontline business operations. Moreover, we introduced a store risk control management system and developed the Xiaomi Service Store Compliance Code of Conduct, laying a robust foundation for operational compliance and capacity enhancement in our stores. These efforts ensure that Xiaomi stores continually refine and elevate their service standards while delivering exceptional services. By the end of the reporting period, in the Chinese mainland,

- We had a total of 1,793 offline retail stores;
- There are 5,108 engineers holding Xiaomi's professional technical qualification certificates stationed in offline stores;
- We hosted 2,789 engineer training sessions, providing a total of 10,123 hours of training;
- The user service satisfaction survey showed an improvement of 4.5% compared to 2022; and
- The offline store service network had covered 91.86% of the cities in the Chinese mainland, covering 316 prefecture-level cities, an increase of 1.45% compared with 2022.

Sales and Service Integrated Operations

At Xiaomi, we have maintained our commitment to enhancing the user in-store experience and have achieved significant progress in sales and service integrated operations. Throughout the year, we have witnessed a 36.6% increase in the number of our sales and service integrated stores in the Chinese mainland that have full-service capabilities such as sales, returns and exchanges maintenance, and recycling. We have continually refined the management of store operational quality, establishing clear standards for store operations to ensure the healthy and robust growth of sales and service integrated operations. We have calibrated store targets, formulated subsidy policies for new stores, instituted mechanisms for monitoring store operations and evaluating outstanding stores, and issued the Sales and Service Operations Manual. These measures have facilitated the efficient conversion of sales and service, driving overall enhancement in the sales and service capabilities of our frontline store teams.

In markets outside the Chinese mainland, we have introduced warranty policy differentiation, VIP customer service, and trade-in targeted subsidies for Xiaomi's flagship models. Warranty policy differentiation services encompass a international warranty, a 2-year warranty and a complimentary replacement for a broken screen. VIP services include one-time access to airport VIP lounges, exclusive customer service, and an exemption from out-of-warranty labor fees, and special subsidies for trade-in. In some markets, we also offer fixed-price discounts for trade-ins.

In-Store and Send-In Repair Service

At Xiaomi's offline stores and service points, users have access to exchange, overhaul, and repair services. We continuously expand our service coverage and offerings. Throughout the year, we introduced new services such as insurance business access, out-of-warranty exchange for IoT products, and repair services for motherboards and screens of smartphones and laptop devices in the Chinese mainland, broadening our service scope. Additionally, we have bolstered our repair service capabilities by establishing service points. Over the reporting period, we established 3,778 stores offering in-store repair service and 124 stores offering send-in repair service in the Chinese mainland. We consistently meet user needs with an enhanced service network, strengthened repair service capabilities, and expanded range of business.

We have also launched a new one-on-one "flash" delivery service in the Chinese mainland market, realizing instant delivery and repair in the same city. Consumers and users can enjoy a smooth and worry-free shopping and after-sales service experience through the "Store Flash Delivery" delivery and repair feature in Xiaomi Store.

On-site (Door-to-Door) Services

We have expanded the coverage area of our on-site services by accelerating the construction of on-site (door-to-door) service points. As of the end of this reporting period, in the Chinese mainland,

- We have built a total of 7,725 on-site service points.
- These on-site (door-to-door) service points are staffed by 32,058 engineers holding Xiaomi professional technical qualifications, representing a 63.18% increase compared to 2022. These engineers consistently deliver quality and fast services for on-site products.
- Our on-site service capability for home appliances has extended to over 2,000 district and county-level jurisdictions.

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Trial of the Integrated Model of Air-Conditioner Delivery and Installation

In 2023, we launched a pilot program for the integrated model of air-conditioner delivery and installation in the Chinese mainland. In the model, the delivery and installation process has been simplified, and rapid delivery is provided to meet users' demand for immediate installation upon delivery. The delivery and installation time has been reduced by a total of 50 hours. We received 100% service satisfaction from our pilot customers. This model has covered 106 cities nationwide, with a total of 282 outlets, greatly enhancing the user experience.

The one-time solution of delivery and installation achieves efficient synchronization of logistics and after-sales service as well as real-time and accurate mutual transmission of time information, which further shortens the logistics and installation time. Based on the integration capability of delivery and installation, Xiaomi's integrated model for dismantling, delivery, and installation innovatively blends in after-sales service to provide users with a one-stop service from dismantling the old to installing the new. The successful trial of the integrated service model of delivery and installation has significantly improved our service efficiency and promoted Xiaomi's continuous innovation in product service and user experience.

Delivery Services

To achieve the optimal distribution of spare parts warehousing and to reduce turnaround times and logistics transport durations, we have established 25 spare parts storage centers across the Chinese mainland. This setup facilitates a short-distance and rapid spare parts storage network. We have also established a device warehousing and distribution network covering the whole Chinese mainland to further optimize the warehousing and distribution network. During the year, we achieved next-day delivery for 80% of our orders in the Chinese mainland.

Quality Management for the Automobile Business Line

Product safety is fundamental pillar in the Total Quality Management (TQM) system for Xiaomi's automobile business line. Our aim is to guarantee that our products are not only safe and dependable but also of superior quality and in full compliance with legal and regulatory standards. The system covers the entire product lifecycle, with stringent testing procedures in place at every stage from R&D to production.

To achieve this goal, Xiaomi's automobile business line has established a TQM system that consolidates all procedures, management practices, quality standards, specifications, and operating guidelines pertaining to quality and safety for the Group's automobile and related business. By focusing on product features and problem management, Xiaomi's automotive business line has built a quality management system. This system not only meets the basic requirements for access and the mass production system but also addresses the demands of each new product project in terms of product features and validation. It also ensures that all projects can be fully safeguarded by process and standard specifications.

In addition, Xiaomi's automobile business line has devised and implemented the development, trial operation, operation, and rapid iteration of digital management platforms, models, and processes, aimed at boosting the efficiency and efficacy of quality management. As at the end of the reporting period, Xiaomi EV's preventive quality system has fully completed, passed the trial operation validation, and officially entered the operational phase.

Xiaomi's solid underlying core R&D technology provides a quality guarantee for the high range and high safety of Xiaomi SU7 Series.

- **Battery safety and range performance: Xiaomi SU7 Series incorporates Inverted Cell Technology, which surpasses traditional solutions in heat dissipation and thermal insulation. It has passed the world's most stringent battery safety testing. Additionally, it features 14 layers of robust physical protection and Xiaomi's interconnected vehicle safety warning system, ensuring comprehensive battery safety.**

- **Active and passive safety: Xiaomi SU7 Series boasts an armor-cage-styled steel-aluminum hybrid body that effectively absorbs and disperses impact forces, thereby to enhance collision safety. It fully complies with the five-star safety standards of both China and the EU. Equipped with 16 active safety configurations, it prevents accidents at critical times. Moreover, we provide stringent privacy security protection to ensure users' personal information and data security.**

Data Security and Privacy Protection

Protecting user data privacy has always been one of Xiaomi's core values. We consistently uphold international regulations and standards in our practices of data security and privacy protection. We develop and update Xiaomi's privacy policy based on core principles contained in global privacy frameworks (such as those published by the OECD and the APEC) and privacy laws (such as the Personal Information Protection Law of the People's Republic of China, the EU General Data Protection Regulation (GDPR), and the General Personal Data Protection Act of Brazil), ISO standards, and regional industry guidelines (such as the guidelines of the European Data Protection Board (EDPB)). Furthermore, we have been actively studying international trends to provide users with a privacy protection system that is in line with the development of modern technology.

In the past year, we took steps to enhance information openness and transparency. We published or updated the *MIUI 14 Security White Paper, the MIUI 14 Privacy White Paper, the Xiaomi IoT Privacy White Paper, the Xiaomi IoT Security White Paper,* and the *Xiaomi Transparency Report 2022*. Our annual *Xiaomi Transparency Report* offers details about the data access requests received from law enforcement and government agencies worldwide, along with our responses to these requests.

For more information on Xiaomi's data security and privacy management, practices, reports, and policies, please refer to:

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

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Data Security and Privacy Protection Governance Structure

At Xiaomi, we believe that protecting user data privacy is paramount to fostering a secure and quality user experience while building trust with our users. We continuously iterate our data security and privacy protection management system and establish reasonable and effective management procedures and standards. The Group has established an Information Security and Privacy Committee (the "Security Privacy Committee"), which focuses on developing and implementing rules, managing security risks associated with personal privacy, advancing privacy technology capabilities, and enhancing risk response abilities. This year, we completed the change of term and reorganization of the Security Privacy Committee. Each business department now operates a Security and Privacy Working Group, contributing to a more mature data security system for the Group and effectively empowers the secure development of smartphones and other business lines.

Xiaomi's Board places great importance on data security and privacy protection. The Security Privacy Committee reports to the Board periodically on the Group's progress in this area and assists the Board in assessing risks in data security and privacy protection, countermeasures, and their efficacy. Based on these assessments, the Board offers management recommendations. In 2023, 100% of the sites of our technology operations received certification under the ISO 27001[16] for information security management systems (ISMS). This year, Xiaomi did not receive any validated complaints about data security and privacy protection.

Data Security

Data security and privacy protection is the core of Xiaomi's continuous pursuit. We are steadfast in safeguarding users' personal data and daily lives through the establishment of a leading security architecture and the adoption of powerful security technologies. Leveraging Xiaomi HyperOS's global security technology and the unified security capabilities of our IoT platform, we have established a set of technical requirements and management mechanisms covering smartphones, IoT devices, and Internet services. These measures utilize Transport Layer Security (TLS) and encryption algorithms to protect user data security. We effectively communicate our objectives and requirements of data security and privacy protection to our supply chain partners. We rigorously examine and manage the data security and privacy protection capabilities of our supply chain partners and develop emergency response measures for data security incidents. By doing so, we minimize potential risks and uphold our users' data security privacy rights.

We also protect the security of users' personal information and data through software system security updates and security vulnerability fixes. Our smartphones and IoT products receive regular security updates, and we continuously disseminate security recommendations and notifications to inform users of newly identified security vulnerabilities, their potential impacts and remediation options, thereby helping users cope with the ever-changing security risks. We actively receive security vulnerabilities of Xiaomi products submitted by users and security researchers in the Xiaomi Security Centre. By receiving and validating vulnerabilities, determining the extent of their impact, determining vulnerability fix solutions, and promptly following up, we enhance the security of Xiaomi products and services.

Xiaomi's Data Security Technology

Security Strategy for the "Human x Car x Home" Smart Ecosystem

At Xiaomi, we place a paramount emphasis on addressing users' concerns regarding data security and privacy protection. We have incorporated them into the development of Xiaomi HyperOS. Xiaomi HyperOS has reconstructed its security and privacy architecture to establish an underlying foundation with the self-developed TEE[17] as a security subsystem to reduce potential risks and improve the overall security of the system. Xiaomi TEE is an isolated security

16 ISO 27001: ISO 27001 is an international standard for information security management that is designed to help organizations manage and protect information assets and secure them.

17 TEE: Trusted Execution Environment.

operating system running on isolated hardware, purpose-built to handle sensitive information securely and cater to the security requirements of different devices and application scenarios. Xiaomi HyperOS leverages different TEE solutions to construct a trusted security base tailored to different hardware environments. Building upon this security base, it bolsters the capabilities of device trustworthiness, universal key management, and cross-end authentication at the framework layer, providing trusted connection, trusted transmission, and trusted peer-to-peer state for cross-end scenarios. This technology provides security functions for many system applications such as face recognition, privacy passwords, and lock screen passwords, and supports core devices such as smartphones and IoT devices. Xiaomi's self-developed TEE was awarded the first EAL5+[18] certificate in China by the China Cybersecurity Review Technology and Certification Centre (CCRC), which is the highest security certification for TEE systems.

Xiaomi HyperOS' hardware-based security root of trust establishes a reliable chain of trust through the secure boot process and is securely transferred to the operating system. The security subsystem of Xiaomi HyperOS designs interconnection security modules and provides unified security for each device. This security subsystem amalgamates hardware and software security technologies and deploys different security technologies at the hardware, kernel, framework, and application layers. Through this comprehensive approach, it provides end-to-end complete link protection for devices, thus safeguarding user data security and privacy. At the same time, Xiaomi HyperOS performs end-to-end encryption during data transmission between devices through a TEE-based interconnection security module that allows devices to verify each other, thus securing the entire network.

IoT Platform Uniform Security Capability

The Xiaomi IoT platform, as a unified IoT device platform built by Xiaomi, supports the access and management of various devices such as smart wearables and smart hardware. Aligned with Xiaomi's Cyber Security Baseline for Consumer Internet of Things Device, the Xiaomi IoT platform incorporates a range of basic security capabilities. The platform greatly enhances the security of the device system with hardware capabilities such as device communication modules and security chips, as well as software capabilities such as the Xiaomi Vela system[19]. In addition, we have developed protocols and standards such as the MIoT Spec protocol[20], and the device two-way authentication protocol. On the service side, the platform boasts the IoT Communication Centre, Digital Certificate Management Centre, Authentication and Privilege Centre, Data Storage Centre, Firmware Management Centre, and Message Distribution and Invocation Centre. These components facilitate the interaction function between devices and the service side while ensuring the security of devices and the service side.

Supply Chain Data Security Audit and Management

We uphold stringent standards in managing our suppliers and partners to ensure data security and privacy protection. For suppliers engaged in users' personal information, we conduct rigorous inspections of their data security capabilities at the early stage of supplier admission. We also require suppliers to adopt unified review criteria for user information to ensure compliance with Xiaomi's data security and privacy protection principles. During the supplier admission phase, suppliers must follow Xiaomi's data security and privacy protection review process for declaration and evaluation. Should a supplier fail to pass, we will require the supplier to make improvements until they meet our standards before entering into cooperation with Xiaomi. We conduct regular audits of supplier data security and privacy protection practices throughout our cooperation. If issues arise, we will suspend cooperation with the supplier until corrective actions are taken.

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18 EAL: Evaluation Assurance Level. It is a numerical level that describes the degree to which a product has been evaluated against the Common Criteria for Information Technology Security Assessment. From EAL1 to EAL7, the higher the numerical level, the higher the level of security for the system implementation.

19 Xiaomi Vela is Xiaomi's IoT embedded software platform based on the open source real-time operating system NuttX. It provides unified software services on various IoT hardware platforms, supports rich components and easy-to-use frameworks, and bridges fragmented IoT application scenarios.

20 MIoT Spec, or MIoT Specification, is a functional description of IoT device specification. It is an IoT protocol developed by the Mijia platform, which contains function definitions, interaction models, message formats, and coding, and applies to devices connected to the Mijia platform.

For the input and output of third-party data, we have established a standardized data privacy declaration process for the whole Group. This process entails suppliers and partners compiling white papers on product/service-related privacy, submitting security and privacy tests, completing data protection addendums (DPAs) and security questionnaires, and submitting privacy declarations online. From the security questionnaire, we can monitor the information security certificates (for example, ISO 27001) held by our suppliers and partners, which serve as an important reference for cooperation.

Data Security Incident Emergency Response

At Xiaomi, we have established a rigorous data security incident management and emergency response system process to ensure a swift and coordinated response to data security threats, minimize potential damages, and safeguard user data security and privacy rights. Upon detecting abnormal data access or potential data encryption errors, we will immediately initiate assessment procedures to evaluate the impact of the incident on users' personal rights and interests. Our dedicated team coordinates and manages emergency responses to data security incidents, determines the severity of the incident, and coordinates emergency protection measures. Through diversified investigative measures, we remain highly vigilant against data leakage, misuse, abuse, and other security incidents. During the year, Xiaomi did not experience any data security leakage incidents.

We emphasize the importance of tracking and managing data security incidents. Our issue tracking management system records the details of data security incidents and the way they are handled. Furthermore, we have established an incident handling group to facilitate traceability of information flow and efficiency of collaboration. Following any data security incident, we will set up a dedicated team to conduct in-depth analyses and summaries of the incident to optimize future security management strategies.

Privacy Protection

Privacy has always been among Xiaomi's core values. Guided by the privacy principle, we integrate the concept of privacy by design into our product development process and continuously explore more innovative technologies to protect privacy. To achieve this, we have established a comprehensive information security and privacy protection governance framework, which is comprised of guiding principles, organizational structure, security and privacy certifications, privacy policies, and a mechanism for continuous improvement. We also process and back up personal information by leveraging secure and globally managed infrastructure, transfer user data through encrypted communication channels, and store it with trusted cloud service providers.

For smart device users, we offered comprehensive privacy protection features through MIUI this year, effectively safeguarding the privacy and security of personal information. Users have control over the applications running on their mobile phones. The privacy security of Xiaomi products is effectively enhanced by many privacy protection features introduced in MIUI 14, including app permission settings, key-protected private space, finding or locking a lost device, secure photo sharing, and the incognito mode of Xiaomi Browser. For more information, please refer to the Xiaomi MIUI 14 Privacy White Paper[21]. In 2023, we made technical upgrades to the MIUI 14 system. A privacy white paper based on Xiaomi HyperOS is expected to be released in 2024.

For IoT device users, we provide privacy practices and safeguards specific to each product or application. Our IoT products include the Xiaomi Watch, Xiaomi Smart Door Lock, robot vacuum, Mijia Electric Scooter, and Xiaomi Router. For more information, please refer to the Xiaomi IoT Privacy White Paper[22].

21 Xiaomi MIUI 14 Privacy White Paper: https://trust.mi.com/docs/miui-privacy-white-paper-global/

22 Xiaomi IoT Privacy White Paper: https://trust.mi.com/docs/iot-privacy-white-paper-global/

At Xiaomi, we prioritize communication with our users and strive to create products and services that earn their trust. To address users' privacy concerns, complaints, and relevant issues effectively, we have established the Xiaomi Privacy Support Platform (https://privacy.mi.com/support/?locale=en), providing an online channel to reach out to our privacy team.

Privacy Protection Standards

At Xiaomi, we have always prioritized user privacy and security, integrating privacy protection principles into our product design. We strictly follow and honor the following five principles and commitments:

Open and Transparent Data Processing

We strictly adhere to Xiaomi's privacy policy and terms when collecting, using, storing, and disposing of users' personal information to minimize data collection and retention as much as possible. All our products and services feature a prominent privacy policy portal for users' easy access at any time to how Xiaomi processes their data. We also expressly inform users of the purpose and use of data processing and obtain their consent. We will never upload any user data without users' permission.

Effective Information Security and Privacy Management System

At Xiaomi, we actively foster an internal culture of privacy and have established a privacy management system comprised of organizations, policies, and procedures. We have appointed a Chief Privacy Officer and formed an Information Security and Privacy Committee covering all business teams to better coordinate and advance our privacy protection efforts throughout the Group. Additionally, we collaborate with users, privacy experts, and third-party certification agencies to continuously improve our privacy practices at Xiaomi.

User-controllable Personal Information

At Xiaomi, we empower users with control over the access of apps via simple and easy-to-use shortcuts, thereby ensuring users' personal data security. Users possess the right to allow, deny, and alter apps' access to the system. They can also view the autostarts, permission calls, chain starts, and sensitive behavior records of each app. Should any unauthorized behavior by an app be detected, users can immediately revoke relevant authorizations and request to obtain, correct, or delete the data collected via our Privacy Support feature.

Comprehensive Security Guards

At Xiaomi, we implement rigorous measures to safeguard users' personal information and prevent data leakage risks. When transmitting data, we employ secure transfer via HTTPS, hashing and obfuscation for sensitive information, and protection of the transmission link to ensure maximum security. In local storage of files, we adopt file-level encryption and key separation. In cloud storage, we implement security classification and a blend of multiple encryption methods to effectively safeguard users' privacy.

Strict Compliance with Laws and Regulations

At Xiaomi, we are committed to establishing standardized and sustainable procedures for privacy impact assessments to ensure that our products and services always comply with laws and regulations regarding personal information protection. All of our products are designed and developed to align with pertinent provisions of current privacy and data security laws and regulations. We have established an internal systematic mechanism for privacy compliance reviews at every stage. From product design to development, testing, and launching, there are specialized teams to conduct data protection impact assessments and security tests.

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Privacy Protection Technology

At Xiaomi, we uphold strict protection of user privacy. Our commitment lies in advancing the synergistic development of technological innovation and user privacy protection while respecting user privacy to cultivate greater trust among users.

- We have introduced differential privacy technology[23]. It ensures accurate statistical results without collecting precise data, thereby minimizing access to users' personal information.

- We also employ Edge Computing technology to locally process sensitive data (for example, biometrics) at the device, eliminating the need to transfer data to cloud servers and thus reducing the risk of data leakage.

- With our self-developed MACE Mobile AI Computing Engine Open Source Deep Learning Inference Framework, we complete complex data analysis and computation tasks on multiple devices, such as tracking activities and sleep monitoring in Mi Health. We are also expanding the local processing of users' personal data to more scenarios.

We firmly uphold users' right to know and control their privacy. Our pioneering Privacy Flare feature has become a network access standard of the Ministry of Industry and Information Technology. In the era of everything interconnected, Xiaomi HyperOS has upgraded its permission management capabilities to the ecological level. It offers features such as interconnection permission management, sensitive interconnection reminders, and sensitive interconnection records. This evolution ensures that permission acquisition in interconnected scenarios is entirely transparent to users and offers them high levels of control.

Data Security and Privacy Protection Culture

We prioritize cultivating a culture of data security and privacy protection. Throughout 2023, we organized various security awareness enhancement activities aiming to raise employees' awareness of data security and privacy protection and the Group's security defenses. These activities included Security and Privacy Awareness Month, phishing drills, training courses, and online assessments. Our data security and privacy protection training activities reached employees in all positions across the Group, including the Board, senior management, employees, suppliers, contractors, partners, and personnel dedicated to security and privacy. We have tailored training programs to suit different positions and introduced assessment and incentive mechanisms.

We recognize the importance of creating a culture of data security and privacy protection. Therefore, we have incorporated courses on data security and privacy protection into our employee orientation training. We also enhance the effectiveness of the training through regular security awareness quizzes and awareness promotion newsletters. During the year, we

- Organized data security and privacy protection awareness quizzes. More than 98% of the Group's employees attended training courses on data security and privacy protection and passed the examination;

- Delivered a number of special training courses for various business departments and the production and research departments of companies in the ecosystem;

- Hosted the Security and Privacy Awareness Month and the 6th IoT Security Summit; and

- Organized at least four phishing drills to test the effect of employees' data security awareness training in combat exercises.

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23 Differential privacy technology: This technology adds statistical noise to the user data before it leaves the device, converting the raw data into obfuscated data and effectively avoiding direct identification of personal information.

In addition, we provided specialized data security and privacy protection training for suppliers and partners, covering nearly 1,000 suppliers and partners.

Security and Privacy Certifications

Xiaomi's information security and privacy protection capabilities have been recognized by the industry's leading certification and testing agencies. We have passed several privacy protection certifications for all of our product lines, including smartphones, Xiaomi HyperOS, IoT devices, Internet applications and services, sales and service systems, and infrastructure. During the year, Xiaomi's Trusted Execution Environment Operating System for Intelligent Terminals (MiTEE OS) received the IT product information security certification EAL5+. We have also maintained the validity of the following third-party audit certifications[24]:

ISO/IEC 27001	Information security management system certification
ISO/IEC 27018	Certification for the management system of personal information in the cloud
ISO/IEC 27701	Personal information management system certification
SOC 2 Type II Certification	Specialized security audit
TÜV Rheinland Enhanced Privacy Protection Testing	MIUI

In addition, our Electric Scooter 4 Pro has obtained UL IoT Security Gold Certification[25], and our Robot Vacuum-Mop 2 Overseas Version has obtained TÜV Rheinland Product Network Security and Privacy Protection Standard Certification. Xiaomi Smart Camera Tripod Head Version, Mijia mobile app, and Xiaomi Mesh System AX3000 router were certified with the IoT Kitemark.

Data Security and Privacy Protection in the Automobile Business Line

Xiaomi's automobile business line has established a robust data security and privacy protection system, policy, and process, which are integrated into fine data management and scenario-based privacy protection features on the product side.

The data security and privacy protection strategy of Xiaomi's automobile business line spans the entire lifecycle of data, including collection, transmission, storage, use, sharing, disclosure, and deletion. It allows Xiaomi's new energy vehicle (NEV) products to develop targeted protection measures at each stage to safeguard user data.

Moreover, we manage data by categorizing, grading, and labeling them to enhance the identification and protection of sensitive information. Additionally, we offer users various scenario-based privacy protection features. In different scenarios, Xiaomi SU7 Series will switch to perform smart privacy protection and data isolation as needed to protect users' interests.

For example, the "Worry-Free After-Sales" feature provides users with a smooth experience and privacy protection in the after-sales maintenance scenario.

24 For all of Xiaomi's privacy certifications, please refer to Xiaomi Trust Centre (https://trust.mi.com/compliance).

25 UL Solutions is an independent global security science company. It has created an evaluation system to measure the security of IoT products. It rates products on one of five security levels, ranging from the lowest (Bronze) to the highest (Diamond).

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Xiaomi's Zero Carbon Philosophy

We believe that it is our responsibility to leverage our products and technologies to support the 1.5°C goal set forth in the Paris Agreement and enable people worldwide to experience an enhanced quality of life through innovative technology. As a global leader in innovative technology, we excel in offering solutions through technological innovation and efficient models to advance the development and adoption of clean technologies. We collaborate with stakeholders to foster a brighter future. We infuse climate awareness throughout the entire process of delivering the "coolest products" to our customers. Moreover, we systematically explore ways to integrate low-carbon features with Xiaomi's strategy and brand, continuously developing and optimizing environmentally friendly technologies and products. In propelling the world's transition towards zero carbon, we have made encouraging progress.

The 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) took place in Dubai, UAE, from November 30 to December 12, 2023. At this significant global climate summit, Xiaomi released its White Paper on Climate Action[26], sharing its actions and commitments in addressing global climate change. The paper details Xiaomi's Zero-Carbon Philosophy and elaborates the Group's approach to transitioning to zero carbon. It highlights Xiaomi's capacity to utilize AI-empowered AIoT to develop green products and establish a sustainable supply chain, thereby aiding the industry and society in achieving global climate objectives.

Climate Mitigation and Adaptation

Tackling Climate Change

At Xiaomi, we prioritize enhancing energy efficiency, embracing clean energy, and innovating through smart manufacturing, among other initiatives, to attain our carbon neutrality targets within our own operations. Moreover, we are committed to spearheading the low-carbon transition and upgrading of the entire value chain. While concentrating on improving product efficacy and ensuring product affordability, we strive to reduce the environmental footprint of our products and services. Our ultimate aim is to make affordable clean technology accessible to all, thus contributing to the creation of a better low-carbon future in collaboration with our stakeholders.

Climate Strategy

In October 2023, Xiaomi unveiled its brand new strategy "Human x Car x Home" smart ecosystem, featuring Xiaomi HyperOS — a human-centered operating system at its core — designed to connect personal devices, cars, and smart home products into a single, integrated system framework. This breakthrough lays the foundation for establishing a universal "connected system," enabling the interconnection of billions of devices in the future. This presents an opportunity for us to explore clean technology applications across various devices, scenarios, and value chains, thereby advancing a greener lifestyle and fostering a low-carbon society with positive climate impacts.

At Xiaomi, we adhere to the principles of "prompt action, practicability, steady progress, and continuous improvement" as we actively respond to climate change. In 2023, we reviewed industry practices and climate publications and engaged with internal stakeholders to assess climate-related risks and opportunities within the Group's business and existing facilities. Starting with reducing carbon emissions within our own operations, we also provide low-carbon training to our suppliers, support them with carbon data and target management tools, and initiate decarbonization projects to promote low-carbon transformation throughout our product and value chain. We collaborate with our upstream and downstream partners to cultivate a green ecosystem. For more information about Xiaomi's strategy to address climate change and risk management, please refer to Xiaomi Corporation's TCFD Report 2023[27].

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26 Xiaomi Corporation White Paper on Climate Action: https://cdn.cnbj1.fds.api.mi-img.com/staticsfile/svhc/climate%20action%20report/whitepaperonclimateactionXiaomicorp.pdf

27 TCFD: Task Force on Climate-related Financial Disclosures. For more information about Xiaomi's response to climate change, please refer to the Sustainability — Climate Change page on the Group's official website (https://www.mi.com/global/about/sustainability#/climate).

GHG Emission Reduction Targets and Carbon Footprint

GHG Emission Reduction Targets

Through more implementations and practices, we have gained a clearer understanding that our progress in reducing GHG emissions is influenced by various factors, including the scale of our business, energy mix, supplier selection, and the evolution of verification standards and models. These factors may directly contribute to fluctuations in our GHG emissions. Nevertheless, our steadfast commitment remains to employ improved and cleaner technology in the way we design, make, and deliver our products and services to users. We will continue to monitor the relationship between our business scale and GHG emission metrics, while ensuring transparency in disclosing and reporting our emission reduction progress.

To support the global aspiration of reaching net zero by 2050, we are dedicated committed to reducing our Scope 1 and Scope 2 GHG emissions. To support progress towards Xiaomi's goal of attaining to achieve carbon neutrality by 2040, we further updated our GHG reduction targets accordingly during the year.

- By no later than 2030, reduce GHG emissions[28] from our main operating segments[29] to 30% of the base year[30] level;
- By 2035, use 100% renewable electricity in our own operations;
- By 2040, achieve carbon neutrality in our own operations of existing business segments[31], use 100% clean heat in our own operations, and use 100% renewable energy;
- Prioritize the use of low-carbon technologies and self-built renewable energy power generation facilities to reduce GHG emissions and increase the share of renewable energy in electricity consumption through long-term green power purchase agreements to reduce GHG emissions throughout our target period;
- Encourage key suppliers to establish renewable energy usage and GHG emission reduction targets that are comparable to or more ambitious than those of Xiaomi to deliver continuous reduction in our Scope 3 emissions.

With our 2040 climate goals in mind and our insights into the future trends of the manufacturing sector, we envision a gradual progression towards a carbon-neutral value chain encompassing raw materials, packaging, production, and usage. Our focus will be directed towards the following key areas:

- **Raw materials:** We will foster deep collaborations with upstream suppliers to establish a supply chain of critical materials, such as metals and plastics, sourced entirely from low-carbon and renewable sources. Concurrently, we will accelerate research and deployment of next-generation lowcarbon materials to ensure an environmentally friendly, sustainable, and responsible procurement practice for raw materials.
- **Packaging:** We will transition towards utilizing recyclable and biodegradable packaging materials while eliminating excessive packaging to optimize weight and minimize environmental impact.
- **Production:** We are committed to continually enhancing production efficiency and striving to fully transition to green electricity in production. We will provide guidance and support to key suppliers in their journey towards achieving net-zero emissions, and while also minimizing carbon footprints through efficient energy management and the adoption of green energy alternatives.

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28 GHG emissions: Refers to the Company's GHG emissions (absolute value) calculated in accordance with standards such as Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard, ISO 14064-1:2018—Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals.

29 Main operating segments: Smartphone, IoT and Lifestyle products, Internet Services, and others (same scope as the operating segments stated in the 2023 Annual Report).

30 Base year: 2021.

31 Existing operating segments: Smartphone, IoT and Lifestyle products, Internet Services, and others, as in the business scope in Xiaomi Corporation's latest earnings announcement.

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- **Product use:** We will leverage technological innovation to enhance the energy efficiency of smartphones and other electronic products, improving performance while reducing energy consumption. Our aim is to ensure that 100% of electronic devices sold are compatible with green energy sources, thereby offering end-users with the option and convenience to utilize clean energy.

GHG Emissions Measurement

The journey to achieving long-term GHG emission[32] reduction targets begins with accurate data collection, assessment, and tracking of Scope 1, 2, and 3 GHG emissions. Currently, Xiaomi's energy supply across the entire value chain predominantly relies on the grid. Given the regional variations in the energy mix for power generation globally, Xiaomi's GHG data standard and accounting models adhere to international protocols, including the Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard, ISO 14064-1:2018 — Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals, as well as other relevant national, local, and industry standards. The GHG emissions from our operations for the past four years are listed below:

Scope (Mt[33] CO_2e)	2023	2022	2021	2020
Direct GHG emissions (Scope 1)[34]	**12,252.52**	7,122.60	9,096.95	8,402.12
Indirect GHG emissions (Scope 2)[35]	**104,470.04**	78,620.01	73,723.21	58,079.17
Other indirect GHG emissions from the value chain (Scope 3)[36]	**To be disclosed in September 2024**	10,075,225.54	12,368,223.29	—

Product Carbon Footprints

We have established a carbon neutrality MARC[37] management model for the lifecycle of our products. This model encompasses aspects such as a management system, carbon footprint accounting, offset emission reduction, and on-going external communication, enabling us to manage the carbon footprint of our products and contribute to green practices in our products.

Carbon Neutrality MARC Model for the Whole Life Cycle

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

33 Mt: Metric tonnes, the same applies below.

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

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

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

37 MARC: Management, Accounting, Reduction, and Communication.

In 2023, we launched a project to assess the carbon footprint throughout the lifecycle of our products and completed product lifecycle carbon footprint assessments[38] for five representative products (including two models of smartphone products, one model of wearable products, and two models of air- conditioner products). Collaborating with an independent organization specialized in carbon accounting and certification, we devised a smartphone-focused carbon footprint assessment framework and methodology, drawing from the Code of Good Practice for Product Greenhouse Gas Emissions and Reduction Claims and PAS 2050:2011: The Standard for Specification for the assessment of the life cycle greenhouse gas emissions of goods and services. Moving forward, we will extend this approach to assess and manage the product carbon footprint across a wider range of our products, including additional smartphone models, air-conditioners, smart TVs, and other Xiaomi ecosystem products.

Take Xiaomi's smartphone products as an example. The lifecycle carbon footprints[39] of our products are as follows:

Product[40]	Product's Carbon Footprint (KGCO_2e)
Xiaomi 13 Pro (12GB+256GB)	62.81
Xiaomi 13 Pro (12GB+512GB)	65.68
Redmi Note 12 Pro 5G (6GB+128GB)	42.82
Redmi Note 12 Pro 5G (8GB+128GB)	45.93
Redmi Note 12 Pro 5G (8GB+256GB)	50.94

Supplier GHG Emission Reduction Program

To incentivize suppliers to adopt climate actions that align with or surpass Xiaomi's GHG reduction targets, we have introduced a special Supplier Carbon Reduction Program. In this program, we require our supplier partners to set science-based GHG emission reduction targets. Additionally, we set forth specific criteria pertaining to increased utilization of renewable energy, disclosure of GHG emissions data, and more. In 2023, we worked closely with 251 direct purchasing suppliers of core products (including some component suppliers and all manufacturing suppliers). We provided support for their validation of GHG emissions data and climate target setting. Among these suppliers, those responsible for 79.89% of the total emissions of direct purchasing suppliers of core products set carbon reduction targets. Those responsible for 81.49% of total emissions from direct purchasing of core products used new energy power. Those responsible for 71.99% of the total emissions of directly purchasing suppliers of core products underwent third-party validation of GHG data.

Exploration of Cutting-Edge Clean Technologies

We remain steadfast in our support for cutting-edge technology exploration projects. In 2023, we allocated nearly RMB60 million in grants to cutting-edge technology projects, with some specifically focused on clean technologies.

Battery Technology: Research on Fast Charging High-Energy-Density Soft-Pack Lithium-ion Battery and Its Key Materials

This project focuses on the research of the high-energy-density, fast-charging, long-cycle-life, high-safety lithium-ion battery and its key materials applicable to smart terminals. By designing a battery structure characterized by high ion transport, the project team improves energy efficiency to generate positive environmental benefits. In addition, the project team researched high-voltage and high-compaction cathode materials, high-gram-capacity and low-expansion anode materials that are stable in long cycles, and fast-charging electrolyte materials with high ionic conductivity that are stable in high voltage. They aimed to extend the battery life and reduce the generation of battery waste. The project team also developed a highly safe battery by studying the electrochemical and safety failure mechanisms of batteries. It effectively reduces the number of safety accidents during the use of batteries, enhances public trust in new energy technologies, and facilitates the promotion of new technologies in transforming the energy structure.

38 For more information about the carbon footprint of our products, please refer to the Sustainability page of the Group's official website (https://www.mi.com/global/about/sustainability).

39 Note: It includes the carbon emissions from raw materials, production, storage, transportation, usage, and end-of-life disposal.

40 The product carbon footprint data is based on measurements of product versions sold in Europe.

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Composite Materials: Research on Green Composite Materials with a High Specific Strength and High Specific Modulus
The project is oriented to consumer electronic products, targeting the problems of preparing reinforcing fibers for green composite materials, properties of the matrix-fiber interface, and bending modulus enhancement for composite materials. The project team researched the preparation and modification method of reinforcing fibers of green composite materials with high specific strength and high specific modulus, the modification and enhancement mechanism of the matrix-fiber interface. In the project, the research on evaluation methods and damage mechanisms for high specific strength and high specific modulus green performance promotes the saving of resources and positive environmental impact and reduces the dependence on traditional materials.

Purification Technologies: Research on New Technologies for Long-lasting Purification of Indoor Air Pollutants
The harm of air pollution to people is one of the major environmental health risks globally. Outdoor air pollution has a significant impact on indoor air quality. Therefore, the project team is committed to researching long-lasting purification technologies for indoor air particulate matter (PM), bioaerosols, and common gaseous pollutants to help improve indoor air quality. At the same time, the project team has developed new materials and technologies for high-efficiency, low-resistance, and safe air purification, which effectively improve energy efficiency and reduce the total amount of indoor air pollutants.

Looking ahead, in response to the demand for higher efficiency of clean energy and the autonomy of microgrids, we will delve deeper into areas such as regional synergistic distributed source-load self-adaptive grid connections and key technologies for the energy management of microgrids.

Green Logistics
Establishing a green and efficient logistics system is paramount not only for ensuring seamless connection and flow of products across our value chain but also as a pivotal lever for reducing operational energy consumption and product lifecycle footprint. We employ the digital new retail system, intelligent logistics system, and better management tools (such as optimizing our product warehousing planning and transport routes and reducing the number of product delivery turnarounds). By doing so, we aim to shorten the logistical distance from manufacturing to the consumer. While maintaining logistics delivery quality, we have achieved high transport efficiency and effectively reduced our logistics carbon footprint. Throughout the year, we accomplished the following results:

- **Optimal allocation of warehousing resources.** By leveraging big data analytics, we optimized warehousing resource allocation to enhance storage capacity per unit area in logistics warehouses. The per square meter efficiency of warehousing in the Chinese mainland has increased by 55.84% compared with the previous year. We also reduced the intermediate links of warehousing and transport to lower the energy consumption of the process.

- **Changes in transport modes.** We adopted transport mode changes and other measures in the transport of smart TV products. For example, we increased the loading volume of our vehicles, resulting in a significant increase of 20% in the loading rate of the entire vehicle compared with the previous year. This effectively shortened the transport time in transit, enhanced the on-time rate of arrival at warehouses, and reduced transport energy consumption.

- **Promotion of new energy vehicles (NEVs).** We incentivized carriers to utilize as many NEVs as possible to undertake Xiaomi business and deliver efficient, economical, and low-carbon logistics services. For our international logistics operation, we collaborated with our service partners to use more LNG[41] vehicles to substitute diesel vehicles, and we have achieved a millage of 99,592 km.

41 LNG: Liquefied Natural Gas.

- **Adjustments to transport modes.** In overseas markets, while meeting the requirements of safe and efficient delivery, we shifted the transport mode for some of our products from high-emitting air transport to lower-emitting rail or sea transport. A total of about 7.23 million products were involved, reducing carbon emissions by about 3,976 tonnes (Mt) of CO_2.

- **Use of low-carbon transport.** In the European market, we continued to increase utilization of low-carbon transport methods to maintain efficient and high-quality deliveries while further reducing GHG emissions. In terms of delivery mode, it was converted from FTL to Part-Load for the cargo out of Belgian and Spanish warehouse to other European countries. By the end of 2023, 1,882 tonnes (Mt) of goods were shipped via the Part-Load mode, maintaining efficient and high-quality deliveries and further reducing GHG emissions.

- **Environmentally friendly use of logistics packages.** By recycling packaging plant shipment transit boxes as logistics boxes for device shipments from manufacturers, we annually saved 30 tonnes (Mt) of paper and 4.6 tonnes (Mt) of plastic bags. In the Chinese mainland market, the proportion of reused boxes in the total number of logistics boxes increased by 36%, resulting in the conservation of 4 million boxes.

Green Offices

In addition to integrating low-carbon and energy-saving practices into the design, production, sales, and logistics of our products, we have also embedded Xiaomi's Zero Carbon Philosophy into our workplace.

Building energy consumption is a key priority for Xiaomi. We explore and evaluate opportunities for energy conservation within our existing buildings and office campuses. Moreover, we incorporate energy efficiency principles during the early stages of designing new buildings. Our green construction approach factors in local conditions and building functions. We benchmark against leading international green building certification schemes to elevate the overall environmental performance of our buildings and to guide our energy efficiency programs. The Beijing Xiaomi Science and Technology Campus, being the centerpiece among Xiaomi's office campuses, has attained the Leadership in Energy and Environmental Design (LEED) Platinum® Certificate, as well as the 2-star Certificate of the China Green Building Design Label (CGBL).

In July 2023, we capitalized on our proprietary data, technologies, and platforms to establish a Group-wide internal employee carbon account system. This system records, quantifies, and visualizes carbon emission reduction data voluntarily disclosed by employees from their work and personal lives. The system has a carbon emission reduction incentive mechanism to encourage employees to practice green and low-carbon concepts through green travel and other behaviors, thus contributing to the net-zero target by leading a green lifestyle. As of the end of the reporting period, the platform received 47,150 contributions.

Energy Management

Operational Energy Management

At Xiaomi, we prioritize environmental protection and the reduction of energy consumption through operational energy management. We have publicly committed to utilizing 100% renewable electricity in our own operations by 2035, and achieving carbon neutrality, alongside 100% renewable energy usage in our own operations by 2040. We are increasing our procurement of renewable electricity to fulfill Xiaomi's daily operational power needs. Furthermore, we collaborate with suppliers to facilitate the low-carbon transition from traditional fossil energy to clean energy through the long-term and incremental purchase and utilization of renewable power.

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By introducing an intelligent management system in our office spaces, we are deeply engaged in low-carbon practices. This system accurately captures environmental attributes such as temperature, humidity, and light intensity. Leveraging this data, the algorithms autonomously adjust commands. For instance, temperature and humidity sensors regulate the air conditioning system autonomously to provide cooling or heating as required, whilst brightness sensors automatically control lighting based on natural light intensity, maximizing the utilization of natural light and reducing electricity consumption. Additionally, the system prevents energy wastage by idling devices. Human sensors for security purposes and smart sunshade systems collaborate efficiently, activating only when human activities are detected. Through these advanced methods of management, Xiaomi's office spaces have been elevated to a whole new level of comfort while realizing substantial energy consumption and carbon emissions savings.

Product Efficiency Enhancement

Through precise identification of user scenarios, we continuously optimize algorithms, particularly focusing on communication modules, display screens, and intelligent ends in smartphones and AIoT devices to enhance seamless connectivity across various scenarios. Additionally, the graded implementation of a power-saving strategy enhances product efficiency and improves the user experience. With the Extreme Endurance Technology, Xiaomi's smart terminals can maximize energy saving by activating multiple power-saving strategies (such as identification and control of the number of apps and high power-consuming apps as well as dark mode interface design) when the power is critically low. Furthermore, we employ Power Saving Mode Technology. In the application scenarios of the smart power-saving strategy, the device will automatically implement power-saving strategies for different power stages, ensuring both user experience and energy efficiency simultaneously.

In terms of energy saving for telecommunication technology, we employ 5G energy-saving technologies, such as self-adaptive broadband technology, which adjusts the bandwidth dynamically based on data volume to reduce energy consumption; self-adaptive power optimization technology, which adjusts the transmit power of the mobile phone adaptively to save energy; and 5G/4G intelligent switching technology. Through these technologies and means, we reduce the energy consumption of mobile phones during 5G signal transmission and improve energy efficiency.

In terms of energy saving in screen display, we remain at the forefront of terminal screen technology. By incorporating advanced screen materials to optimize energy use, we boost screen brightness efficiency and reduce the carbon footprint associated with smartphone screen utilization. For example, Xiaomi's latest Xiaomi 14 and Xiaomi 14 Pro smartphones feature energy-saving screens equipped with high-efficiency screen power supply chips. These chips have improved the efficiency of the screen power supply by approximately 7%. In addition, the application of new OLED luminescent materials has led to an increase in luminescence efficiency of more than 16% (compared with the luminescent materials with stacked structures in 2020).

In terms of smart terminals, we have undertaken systematic research on chip design, battery materials, and charging algorithms and have pioneered an intelligent fast-charging system that integrates high charging rates, high energy density, and efficient low-heat features. We have introduced the world's first 3-in-1 fast-charging infrastructure, which includes wired fast charging, wireless fast charging, and reverse wireless charging, complemented by chip design methods. Through our efforts, we have introduced 4:2 and 4:1 charge pump fast charging chips with 98.6% and 96.8% efficiencies. These advancements have resulted in chip losses being reduced by more than 70%, positioning Xiaomi among the global frontrunners in charging technology. This technology has been implemented in more than 100 million smart devices. Compared to traditional fast-charging technologies, it can save around 52 million kW of electricity consumption on an annual basis.

New Energy Power and Energy Storage

We are building upon our current line of low-power solar PV panels and mini energy storage devices utilized in households, while continually expanding our product range and offerings to cater to the needs of customers, homes, offices, and other settings. Additionally, we are developing smart hardware with DC technology and group intelligent control capabilities. The ultimate goal is to establish a comprehensive ecosystem of energy generation, consumption, storage, and control in residential, office, and travel scenarios. This is coined as the "Light, Storage, Direct, Agile" active response terminal.

Xiaomi's Renewable Energy and Charging Product Combo

Xiaomi's portable renewable energy product, the Mijia Solar Panel, incorporates the innovative Metal Wrap Through (MWT) technology with a 100-W MAX fast power output. It is designed to be used with the Mijia Outdoor Power Supply 1000 Pro, the combined use of which will make outdoor power supply and storage possible. These products' efficient performance and portable design have made them an ideal choice to use for outdoor travel, camping, and emergencies.

Investment and Expansion

We have demonstrated a strong commitment to investing in and supporting businesses across the energy storage industry, including new energy battery manufacturers, battery material producers, portable energy storage solution providers, companies specializing in battery thermal management technology, as well as emerging players in the EV charging and equipment sector. Through partnerships in clean technology, we have fostered the development of green, intelligent, and innovative products in more scenarios. In the NEV industry alone, we had invested over RMB8 billion in over 70 high-quality companies as of 2023, whose operating income added up to over RMB110 billion. Through joint innovation and investment, we and our partners are continuously speeding up the growth of businesses committed to sustainability development.

Waste Management and Circular Economy

Electronic Waste and Circular Economy

At Xiaomi, responsible management of product end-of-life is integral to our transition towards a circular economy and our efforts to minimize electronic waste. This endeavor involves intervention and innovation across our value chain, from product design to enhancing product longevity, reuse, recycling, and dismantling. We comply with applicable laws and regulations on electronic waste in all the markets where we operate. Furthermore, we proactively understand and adapt to local electronic waste recycling systems. We continue to introduce more comprehensive electronic waste management channels and methods to fulfill Xiaomi's responsibility and commitment to product end-of-life management. In alignment with the Basel Convention, we pledge not to export electronic waste to non-OECD countries. Additionally, we actively collaborate with users, suppliers, and partners to establish a closed loop of resource circulation.

Recycling and Reuse

On a global scale, we have implemented product take-back programs. The adoption of efficient sorting methods facilitates categorized recycling, fostering a shift from a linear model of take-make-waste to a circular regeneration approach. Our recycling services are available at our own facilities and through our partnered local recyclers and service providers, which makes the recycling of electronic products more convenient and ensures that electronic and other solid waste is properly treated. We strictly assess the certification qualifications of our partners in the electronic waste business

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as per applicable local laws, including the Quality Management System (ISO 9001), the Environmental Management System (ISO 14001)[42], the Information Security Management System (ISO/IEC 27001), and the Certifications for Zero Landfill and Responsible Recycling (R2)[43] of international electronic waste. Throughout our collaborations, we establish specific agreements with our partners concerning labor rights, a safe and healthy work environment, and the prohibition of illegal waste exports, ensuring that our partners handle waste recycling, refurbishment, or disposal in a reasonable and legal manner. In addition, we have launched an internal purchase program of sample devices for employees and established a standardized management system and standards for internal sample device purchases, fully promoting resource recycling and reducing electronic waste generation. During the year, we recycled approximately 12,260 tonnes (MT)[44] of electronic waste, including smartphones, laptops, and IoT products, globally. Over the next five years (2022-2026), our target is to recycle 38,000 tonnes (Mt) of electronic waste. As of the end of the reporting period, we had achieved 44% of the waste recycling target set in 2022.

In markets outside of the Chinese mainland, we collaborate with third-party electronic waste recyclers ensure the proper disposal of electronic waste through delivery or door-to-door collection by our partners. This service spans to 11 countries and regions (including Hong Kong, China; Thailand; Malaysia; and the UK), covering smartphones, smart TVs, watches, electric scooters, and some other ecological chain products.

Trade-In

Our Trade-In program relies on our own facilities and third-party recyclers to promote the recollection and recycling of used devices in the Chinese mainland, the UK, Germany, Italy, France, Spain, the Netherlands, and Poland. The program encompasses a wide array of smartphone brands and some IoT devices. In 2023, we expanded the categories of recyclable products and the coverage of recycling services in the Chinese mainland. Employing recycling methods such as trade-in coupons[45] and an "online + offline" combination (in store recycling, door-to-door recycling, and mail-in recycling), we aim to incentivize users to recycle their products for new ones. Outside the Chinese mainland, we conducted 22 trade-in subsidy events across the UK, Germany, France, and Italy, with a special World Earth Day event offering trade-in subsidies for flagship models in France.

At the same time, we invest resources in supporting the development and layout of the recycling economy industry. Our recycling business partners include two Xiaomi ecological chain enterprises, and we plan to continue to expand our cooperation network.

Trade-In Service Fully Upgraded in European Markets
In 2023, we further upgraded the "trade-in" service in the UK, Germany, Italy, France, Spain, the Netherlands, and Poland. We carried out in-depth development of Xiaomi's official website in the above markets, correlating the trade-in order with the recycling order and combining it with the operation of the page for ordering a new device. This move provides users with a complete and convenient trade-in experience and subsidy Program.

42 ISO 14001: ISO 14001 is the world's first international environmental management standard system. It not only meets current environmental requirements but also ensures that the management system will be able to meet future needs.

43 R2: Responsible Recycling.

44 During the year, the significant increase in the weight of electronic waste recycled by Xiaomi was mainly attributable to Xiaomi's continued expansion of product recycling and trade-in services and the significant growth in sales of major appliance products.

45 Trade-in coupons: Xiaomi users can participate in our Trade-In Program by returning their used products to us in exchange for coupons. We will then assess the residual value of the products, conduct a quality inspection, and issue a "trade-in coupon" to the user's Mi account upon successful completion of the transaction.

Used Device Refurbishment

We are committed to advancing the circular economy by continuously carrying out used device refurbishment programs. During the year, our refurbishment factories in Europe alone refurbished 126,567 smartphones, smart TVs, smartwatches, electric scooters, air purifiers, and robot vacuums, among other devices. Among refurbished devices, there were more than 111,698 smartphones, more than 3,603 smartwatches, 1,243 smart TVs, 1,798 electric scooters, 3,489 robot vacuums, and 4,736 other ecosystem devices. In 2023, we opened a refurbishment factory for ecological chain products in Hong Kong, China, primarily for the refurbishment of dehumidifiers, air purifiers, and robot vacuums.

Expanding Product Lifespan

Product Durability

When selecting materials for our products, we consider material durability. We have used new materials such as titanium alloy and Dragon Scale Fiber[46] in different models of smartphones. We have created an ultra-strong skeletal architecture consisting of a high-strength composite aluminum skeleton, a raised and reinforced design at the corners of the middle frame, a thickened motherboard with multiple metal reinforcements, and Corning Gorilla Glass Victus[47]. We have introduced a keel pivot with aerospace-grade super steel, a three-stage connection, and 14 removable hinges. These enhancements significantly improve the device's drop resistance, durability, and endurance. In our latest flagship smartphones, we have introduced Xiaomi's Dragon Crystal Glass, renowned for its extreme durability properties as a screen material. This material uses a professional powder formula in the screen panel. Through heat treatment above 800°C, it undergoes nucleation and long crystal growth to form microscopic crystals with interlocking structures that are evenly dispersed in the glass. This design allows the Xiaomi Dragon Crystal Glass to gain strength far beyond that of ordinary glass, boasting 10 times the drop resistance and 1.25 times the scratch resistance, while maintaining a high transmittance rate. In durability tests such as high temperature and humidity, dust and water resistance, and drop, we have also set up experimental standards that surpass international norms, aiming to reduce the risk of product breakage in various scenarios.

In 2023, the Redmi K70E smartphone debuted the Starfish Algorithm, which enables the repairable function of the phone's battery. It maintains 90% of its battery capacity in the heavy-duty condition of 1,000 cycles, meeting rigorous cycling capacity requirements. The Redmi Note 13 Pro smartphone also features a long-life cycle hardware and software design, guaranteeing the long-use standard of 1,000 cycles. In addition, we have extended the lifespan of our smartphone products by prolonging battery life and reducing charging frequency. The Xiaomi 14 and Xiaomi 14 Pro smartphone products have seen a notable improvement in endurance (DOU[48]) by 7-8% compared to their predecessors.

Warranty Services

At Xiaomi, we are committed to providing users with convenient repair services and expanding product lifespan through comprehensive warranty service plans. We offer repair parts and materials at reasonable prices to enhance the maintainability of our products. In addition, we uphold our promise of product repair and ensure the availability of spare parts for products that are no longer sold. Additionally, we have set clear requirements for our maintenance service partners regarding spare parts storage duration and outlet maintenance capacity to better address our users' repair needs. To effectively extend the service life of our products and reduce electronic waste, we provided board-level repairs[49] in the Chinese mainland in 2023 for products that previously required part replacements, with a

46 Dragon Scale Fiber: This material has the advantages of high toughness, high strength, impact resistance, and puncture resistance. A hair-thin ceramic fiber can stretch 1.15 kg without breaking. Its impact strength is 36 times higher than that of glass.

47 Corning Gorilla Glass Victus: Corning® Gorilla® Glass Victus® is the first mobile phone glass released by Corning Gorilla that presents significant improvements in both drop and scratch resistance. According to Corning's official experimental data, the glass remains intact when dropped from heights of up to 2 meters onto hard and rough surfaces.

48 DOU: Days of Use.

49 Board-level repairment: It refers to locating faulty components or equipment through simple repair operations (such as replacement and debugging) and repairing.

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cumulative total of 192,000 orders completed. Warranty extension programs have been launched for key components of home appliances. The warranty period for compressor and motor components of air conditioners, refrigerators, and washing machines has been extended to ten years, and the warranty period for the motor, a primary component of the vacuuming series products, has been extended from one year to three years. These programs have effectively reduced the frequency of product replacement by users. We have enhanced our maintenance service capabilities for smart TVs, prioritizing local repair over part replacements.

Product Design and Recycling

At Xiaomi, we actively promote the utilization of renewable resources in product design and R&D and aim to replace traditional materials with bio-based and recycled alternatives. We assess the environmental impact of components throughout their lifecycle during the product design phase, prioritize simple construction design and single-material packaging, and enhance the renewable performance of products. Through these efforts, we aim to reduce and eliminate waste and pollution and promote a circular economy. Moreover, we collaborate with our partners to actively explore the application of renewable materials, bio-based raw materials, and high-performance new green materials, thereby increasing the proportion of green materials in our products. This approach enhances enhance the "low-carbon satisfaction" of our users. Throughout the year, we adopted the following initiatives in core product development.

- **Adoption of a low-carbon leather material solution for the first time.** The back case of the Xiaomi 13T smartphone is made of a biobased material based on apple pomace, with 24% of the polyurethane material derived from biobased raw materials. Additionally, the base fabric is 100% made of recycled RPET[50] fabric and ensures zero organic solvents used in production.

- **Reuse of marine debris.** Recycled plastic materials derived from discarded fishing nets from the ocean are used for some of the components of the Xiaomi 14 and Xiaomi 14 Pro smartphones. These parts contain over 50% recycled materials.

- **Extensive use of recycled metals.** We have increased the utilization of recycled metal raw materials in smartphone components, including recycled aluminum, gold, and copper. For example, some models of the Redmi series feature die-cast center panels and front cases crafted from recycled aluminum materials, with 100% of metal scrap from production being recycled for production.

- **Optimization of battery materials.** With the newly introduced hybrid ternary battery technology, the nickel-cobalt-manganese ternary material is added to the original lithium cobalt cobaltate cathode material in the batteries of some smartphone products, reducing the cobalt consumption by 13%. This move not only diminishes reliance on rare metals but also curtails the utilization of key mineral resources.

- **Promotion of green packaging.** We have significantly increased the proportion of molded pulp products used in the packaging liners of smartphone products to 30–50% in some markets.

- **Promotion of lightweight packaging.** By reducing the grammage of raw materials for packaging content such as instruction manuals and product starter guides, we have reduced paper use by 33.3%, saving approximately 1,170 tonnes (Mt) of paper.

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50 RPET: Recycled PET or recycled polyethylene terephthalate. It is an environmentally friendly material made primarily from recycled PET plastic bottles using physical or chemical techniques of extraction.

We also continue to seek green and innovative packaging solutions for our ecosystem products, aiming to conserve resources in packaging. In 2023, Xiaomi's ecosystem products adhered to a design and R&D philosophy centered on "eliminating excessive packaging, striving for simplicity and compactness, and pursuing green packaging". Through optimization of packaging structure, materials, printing, and manufacturing processes, we have revamped our packaging R&D process, packaging design standards, reliability testing standards, and appearance inspection standards. These initiatives guarantee the quality of product packaging while achieving substantial reductions in packaging material consumption. This year has witnessed:

- **De-plasticizing and biodegradability.** In some of the IoT product packaging, we have transitioned from replace the traditional BOPP[51] full-wrap film to the tracing paper full-wrap film. This change not only maintains product aesthetics and reliability but also achieves 100% de-plasticized and biodegradable packaging. Additionally, by substituting two-sided paper coated with water-based oil for two-sided coated film, we have accomplished a 100% all-paper biodegradable packaging solution.

- **Innovative application of materials.** Xiaomi's noise-canceling Bluetooth earphone, Necklace, adopts an all-molded-pulp one-piece packaging structure from the outer box to the inner liner. Its raw material consists of 70% bamboo pulp and 30% sugarcane pulp, successfully realizing 100% biodegradable packaging materials.

- **Optimization of structure.** For the packaging of the robot vacuum category, we have replaced the original plastic structure with a paper tray structure, realizing 100% biodegradable packaging materials. Meanwhile, we have switched the cushioning material of small products (such as Xiaomi AI Speaker Second Generation and Mijia Smart Air Fryer PRO 4L) to recycled materials.

- **Lightweight optimization.** We have conducted in-depth optimization in packaging materials, structure, and process, and completed the lightweight packaging R&D and design for a total of more than 20 products in various categories, including robot vacuums, routers, speakers, kitchen and bathroom appliances, personal care products, and smart door locks.

Restricted Substance Management

Specific chemical substances may pose negative impacts on human health and the ecological environment. At Xiaomi, we prioritize the safety of our users and the environment by rigorously controlling the use of chemical substances. We strictly adhere to global laws, regulations, and standards governing the restricted use of chemical substances, including the Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS), the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), the Directive on Packaging and Packaging Waste (94/62/EC), and the EU Persistent Organic Pollutants (POPs) Regulation.

In 2023, Xiaomi's RoHS certification and REACH certification covered all smartphone products and IoT devices. We updated our Product Environmental Hazardous Substance Management Guidelines based on globally applicable regulations and standards on restricted substances (such as RoHS, REACH, and PoPs) and in light of Xiaomi's practices. We impose stringent restrictions on the use of restricted substances in the production and manufacturing of our products in accordance with domestic and international standards. Additionally, we continuously strive to reduce and phase out potentially restricted substances that may be contained in our products, such as Polyvinyl Chloride (PVC), Brominated Flame Retardants (BFRs), beryllium, antimony, and cobalt. This effort reflects our commitment to diminishing the negative impacts of our products on the environment.

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51 BOPP: Biaxially Oriented Polypropylene.

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During the year, we provided training on the management of restricted substances for our suppliers to enhance their performance in this regard. We classified different materials according to their environmental risk and required our suppliers to conduct regular environmental tests in accordance with the environmental classifications. We worked closely with our supply chain partners to set detailed management requirements on restricted substances for the processes of product design and manufacturing and required all product and component suppliers to accept the provisions and submit product environmental reports or third-party test reports on materials (including but not limited to the Product Environmental Hazardous Substances Compliance Statement and third-party precision analysis reports on hazardous substances), to ensure that the information they provide on restricted substances is reliable. Moreover, we are dedicated to reducing negative impacts on the environment across stages of development, production, and use. During the year, we switched from mineral ink to soy ink for printing package contents and product user guides in the packaging of Xiaomi 14 series smartphone products and removed mineral oil-saturated hydrocarbon (MOSH) and mineral oil-aromatic hydrocarbon (MOAH) substances from the packaging.

We strictly implement the process of pre-inspection and tracking management of restricted substances, and have established a pre-inspection and tracking management system for parts and raw materials. In 2023, we disclosed the Substances of Very High Concern (SVHC) contained in our products as per the provisions of REACH. For more details, please refer to the Sustainability page on the Group's official website (https://www.mi.com/global/about/sustainability).

We actively participate in the development and review of industry standards. In 2023, we participated in the replacement review of the industry standard governing electrical and electronic products, Marking for Control of Pollution Caused by Electronic Information Products (SJ/T 11364). We joined the Working Group on Pollution Control Standards for Electrical and Electronic Products organized by major regulators. These endeavors signify our commitment to setting domestic standards for restricted substances.

Operational Waste Management

At Xiaomi, we put operational waste under a strict classified collection and management mechanism and commission qualified third-party organizations to recycle, dispose of, and reuse it. We have developed the Waste Management System of the Xiaomi Science and Technology Campus to regulate the classification, collection, and disposal procedures for solid waste. We have also assigned responsibilities for domestic waste recycling to ensure that operational waste on the campus is handled in a safe and orderly manner. Embracing the regulator's policy on waste classification, we have continuously promoted waste classification and environmental protection awareness. Through a three-step education and implementation method, "instruction, understanding, and implementation," we ensure the orderly and efficient implementation of waste classification. Our efforts included posting more than 300 signs and posters on waste classification in the Xiaomi Science and Technology Campus, hosting regular training on waste classification, and receiving four inspections on waste classification from relevant regulators throughout the year.

Non-hazardous Waste

Non-hazardous waste generated from our operations includes domestic waste from offices and food waste from our canteens. We insist on using the food waste compression equipment installed in our canteens and have added a new dishwasher to dehydrate and break up the residue. We use biotechnology to convert the compressed food waste into animal feed or organic fertilizer that meets national standards. On average, each tonne (Mt) of food waste yields approximately 0.3 tonnes (Mt) of organic fertilizer. In the year, we processed about 3,200 tonnes (Mt) of food waste.

Hazardous Waste

We keenly recognize the potential risks that improper use and handling of chemicals may bring to our customers, employees, communities, and the environment. Therefore, we are dedicated to continuously improving our chemical management system, ensuring strict compliance with pertinent laws and regulations, and handling the chemical substances involved in our products, activities, and services and the hazardous waste generated in a highly responsible way. We have established a sound hazardous waste management system and processes. We also avoid the generation of waste by optimizing our production and auxiliary processes and improving the efficiency of material utilization. Hazardous waste generated is disposed of properly in strict accordance with pertinent processes and regulations. In 2023, hazardous waste from our operations included toners and cartridges required by the printing equipment as well as liquid and solid waste from the R&D and manufacturing of the automobile business line. All of the waste was disposed of in an environmentally sound manner.

Hazardous waste treatment in the automobile business line

We adhere to the principles of "minimization, recycling, and safe disposal" of waste and are committed to reducing the production and use of hazardous substances. In production manufacturing, we adopt advanced environmentally friendly coating processes, such as zirconized film treatment and dry painting, to effectively reduce the emission of volatile organic compounds (VOCs). Moreover, we strictly screen raw and auxiliary materials and prioritize coating products with low VOCs content to reduce the generation of hazardous waste at the source.

We will implement a sludge drying and waste solvent concentration project. Through these measures, we will further reduce the generation of hazardous waste and mitigate negative environmental impacts.

Natural Resources and Biodiversity

At Xiaomi, we attach great importance to the key role that natural resources play in our products and services, and we perform responsible management of the resources used in our production and manufacturing processes. We continuously optimize our product structure, reduce the use of materials, and develop and apply recycled or energy-efficient materials. We minimize the use of fresh water and strive to eliminate waste of resources in our operations and operations of our value chain. We maintain energy and water conservation and waste reduction measures to improve resource efficiency and reduce pollutant emissions. At the same time, we continuously optimize our operating environment and improve our management systems in accordance with the laws and regulations of the locations in which we operate.

Water Stewardship

Water is an essential resource that flows through various aspects of sustainable development, and thriving society and natural environment depend vitally on a well-functioning water system. Xiaomi's water stewardship has progressed steadily with continuous improvement. During the reporting period, the State increased its efforts in environmental protection legislation and implemented several laws and regulations on water protection and stewardship. At Xiaomi, we have taken proactive measures to align our practices with these new laws and regulations and meet regulatory requirements. We have moved in advance for water protection and sustainable water stewardship demands. Through data collection and analysis, we have developed and implemented various commitments and plans aimed at sustainable water stewardship and evaluated the progress of implementation. We have achieved a sustainable balance of water and excellent water quality, safeguarded key waters, and ensured access to safe drinking water for our employees.

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Alliance for Water Stewardship (AWS)

This year, Xiaomi obtained the Gold certification from the Alliance for Water Stewardship (AWS)[49] for the first time.

Xiaomi Science and Technology Campus is the world's first commercial office building to apply for the AWS certification. Our achievement sets a precedent for global business companies by overcoming obstacles and innovating to achieve the best score. Xiaomi Science and Technology Campus has been designed, built, operated, and managed in accordance with green building standards. Its approach to water efficiency builds upon the principles of using less water and maximizing the circular use of water resources, guiding other operating campuses of Xiaomi in water stewardship. In addition, Xiaomi Science and Technology Campus is the only office campus in the world to apply for AWS certification for protecting water resources in China's Haihe River Basin, effectively protecting water resources in northern China.

Water Stewardship Procedures

We have continuously promoted the concept of sustainable water stewardship from AWS standards and extended our experience to other operating campuses of Xiaomi. We have established a comprehensive water stewardship system to assess water-related risks and challenges. The campus director assumes the highest accountability for sustainable water stewardship. The Corporate Social Responsibility (CSR) Centre, serving as the planning and management arm, implements sustainable water stewardship programs and reports directly to the top manager. The Administration Department coordinates and manages tap water, reclaimed water, cooling water, wastewater and rainwater, as well as the planning and implementation of improvement programs on the campus.

We have set targets and action plans for total water consumption and water efficiency. We apply advanced water conservation technologies and strengthen management measures to continuously improve water efficiency, and review the results every year. Furthermore, we actively promote the utilization of recycled and reclaimed water and continuously increase the rate of recycled water usage and the recycling rate of reclaimed water on the campus. In addition, we are dedicated to protecting the water environment in local watersheds, supporting water security planning for watersheds, and improving communication and information disclosure with external stakeholders. For more information about Xiaomi Corporation's water stewardship, please refer to the Sustainability page on the Group's official website (https://www.mi.com/global/about/sustainability).

Water Stewardship Practices

We are committed to advancing our water stewardship practices to ensure water security and protect aquatic ecosystems in the watersheds where we operate. Our goal is to harness technology as catalyst for improving access to affordable water resources. All wastewater produced in our operations is treated in strict compliance with local regulations and requirements to ensure water safety. Throughout the year, we implemented a combination of water conservation measures to manage water consumption within our commercial premises, including enhancing management of air-conditioning water quality, utilizing high-pressure water cannons to clean grease traps, and replacing traditional watering with sprinkler irrigation. At the same time, we have taken adequate preventive measures to address potential incidents related to wastewater, ensuring the efficacy and safety of our water stewardship. We rigorously monitor the quality and quantity of water supplied. We conduct real-time monitoring and regular compositional analyses of the wastewater generated to ensure clean water while prevening water pollution.

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52 Alliance for Water Stewardship (AWS): It is a water stewardship certification body established by the UN Global Compact (UNGC), the Carbon Disclosure Project (CDP), and other international organizations. The AWS certification rates water use sites as Platinum, Gold, or Core (from the highest to lowest) based on an assessment of 100 indicators, including stable water stewardship, water pollutant stewardship, water sanitation, domestic impacts of biodiversity, and governance. For more information about Xiaomi's response to climate change, please refer to the Sustainability — Water Resources page on the Group's official website (https://www.mi.com/global/about/sustainability#/water).

Biodiversity

The essential role of natural resources in addressing climate-related challenges and conserving biodiversity was emphasized at COP28, which concluded in December 2023 as an international conference on the global response to climate change. Business development strategies that integrate nature conservation and climate action are becoming increasingly critical. In the face of ongoing biodiversity loss, societal expectations regarding ecological conservation from companies continue to escalate. In response, we are embarking on proactive initiatives at Xiaomi to uphold our commitment to biodiversity conservation. We will formulate a biodiversity strategy aligned with the methodology of related topics on Global Biodiversity Framework (GBF) and the Taskforce on Nature-related Financial Disclosures (TNFD), aiming to minimize and avoid impacts on global ecosystems.

Biodiversity Commitments

We are committed to:

- Ensuring that our business activities are compliant with applicable local biodiversity laws and regulations in all the markets we operate;

- Ensuring that our site selection and construction activities avoid and do not invade or cause negative impacts on the habitats of endangered and protected species listed on the International Union for Conservation of Nature (IUCN) Red List, and the natural and cultural heritage sites listed in the World Heritage List of the United Nations Educational, Scientific and Cultural Organization (UNESCO);

- Encouraging suppliers to conduct biodiversity risk assessments associated with their operating sites, and to take necessary measures (such as avoidance, reduction, restoration, and offsetting) in the event that their production or operating boundaries are in the vicinity of key biodiversity ecosystems and habitats of threatened and protected species, in order to minimize negative impacts and enhance ecological well-being; and

- Collaborating with partners to explore possible ways to alleviate biodiversity degradation.

Biodiversity Practices

At Xiaomi, we prioritize the conservation of biodiversity, water, and natural ecosystems. We have launched a charity program with a focus on ecological conservation, covering various areas such as wildlife protection, stray animal rescue, and environmental protection. This year, the Xiaomi Fundraising Platform for Charities continued its efforts in the "Protecting Habitat of Migratory Birds" project in protecting and promoting migratory birds and their habitats. It also drew more attention to "Three Rivers Water Conservation and Species Preservation," a project that aims to preserve the intact ecosystem of the Three River Sources (or Sanjiangyuan) ecosystems, thus contributing to conserving the source of the Yangtze River.

While continuing to make a positive impact on the community, we are vigilant about our impact on the local biodiversity and ecological environment. In 2023, we conducted a study on the ecological status of the flora and fauna at the Qiyue Farm charity project site. This study included an assessment of the local soil, water quality, and other ecological factors, as well as an evaluation of the distribution of local vegetation and animals. Using the sample survey method, we examined the species diversity of the ground cover and its plants in different ecological environments in the area. The results revealed the presence of 22 species of wild animals, including the badger and the wild boar; 40 species of wild birds, including the little egret and the medium egret; and 10 species of wild amphibians and reptiles, including the Zhenhai brown frog, in the evaluated area. These results demonstrate that the public welfare project has not only contributed to the conservation of local wildlife diversity but also boosted the local economy.

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We have extended our biodiversity responsibility even to the greater world. This year, Xiaomi India partnered with United Way India, an NGO, to launch an urban afforestation project in the National Capital region. With this partnership, they aimed to promote the diversity of flora and fauna through soil and water conservation and groundwater level monitoring. The project also aims to address the urgent need for increased green cover by planting 12,000 saplings of over 40 different local varieties. The project follows the Miyawaki initiative[53] to cultivate an urban forest. Soil moisture is improved, and rainwater conservation measures are implemented to improve soil moisture, thus reducing pollution, increasing biodiversity, and mitigating the urban heat island effect. Moreover, this urban forest contributes to carbon reduction and sequestration and mitigates the impact of climate change, thus contributing to a sustainable world for future generations.

At Xiaomi, we persevere with marine litter and plastic pollution control. In Aug 2023, Xiaomi India launched a three-year program on prevention of ocean bound and waste management in Karnataka. The initiative aims to enhance waste management. In Karnataka, we clear litter on beaches and in rivers and install protective netsselect locations through source segregation, system streamlining, beach cleanup drives, installation of trash barriers in rivers to prevent plastic waste from reaching the ocean and to maintain the stability of the marine ecosystem, community awareness, infrastructure support, and behavioral change towards waste dumping. The target of the three-year control program is to remove approximately 2,300 kg of dry waste from landfills and water bodies every day and to conserve marine biodiversity while creating cleaner beaches and ecosystems.

At Xiaomi, we are committed to making a significant positive impact on society while actively practicing biodiversity conservation. Through the Xiaomi Fundraising Platform for Charities, we raise awareness about environmental protection and biodiversity conservation among users both online and offline. Online, we promote the concept of environmental protection to users through smartphones, smart TVs, and other multi-terminal devices. Offline, we organize a wide range of environment-themed public welfare volunteer activities, including tree planting, coastal cleaning-ups, wetland ecological conservation, and dissemination of ecological knowledge. These activities serve to advocate for environmental protection and biodiversity conservation among users.

53 The Miyawaki Initiative: The Miyawaki initiative, proposed by the Japanese botanist Akira Miyawaki, is an effective, smart, and sustainable way to create native dense forests. This renowned method so effective is because it ensures that plants grow up to 10 times faster and that plantations are up to 30 times denser than traditional forest planting methods.

Shared Success for Partners

Talent Nurturing

Employee Rights and Diversity

Talent plays a pivotal role in Xiaomi's quest high-quality technological innovation and its continued leadership in the fiercely competitive industry landscape. By developing competitive recruitment, hiring, benefit, and incentive policies globally, we are committed to providing a safe and comfortable work environment and fostering an "inclusive, open, diverse, and equal" workplace that attracts diversified talented people. We have designed a training system that tailored to the development of all types of employees, aimed at nurturing, motivating, and retaining professionals aligned with the needs of corporate development. In 2023, our efforts yielded many remarkable results. We were included in the World's Best Employers 2023 list of Forbes, acknowledged by Forbes China as China's Best Employer in Innovative Practices of the Year, and were ranked among top 3 among China's Most Attractive Employers by Universum.

Labor Standards

Our values of fairness, impartiality, and openness is enshrined in our Employee Handbook and other policies applicable across our global operation as well as our approach to managing recruitment, employment, and employee dismissal. We uphold and adhere to the guiding principles established by the International Labor Organization (ILO), the Organization for Economic Cooperation and Development (OECD), and local workplace regulations. In our Employee Handbook, we strictly prohibit child labor and forced labor anywhere, alongside harassment, abuse, violence, and any form of discrimination in our workplace — including language, behaviors, and decision-making in the recruitment process. We also provide relevant training to help employees better understand these issues. In 2023, there were no reported incidents related to child and forced labor, employment and gender discrimination, and violent behaviors in our workplace.

Anyone found to be in violation of these conducts will be subject to disciplinary action in accordance with our internal policies and regulatory requirements. We operate in accordance with the principles of the United Nations Universal Declaration of Human Rights and the United Nations Global Compact (UNGC) and require the same of all suppliers doing business with us.

In 2023, we established a Labor Coexistence Committee in Colombia. As a supervisory body, it is one of the Company's key strategies to protect its employees. The committee is committed to improving the work environment, preventing workplace bullying and harassment, and protecting employees from risks that could endanger their health while at work. The establishment of the Labor Coexistence Committee in Colombia highlights Xiaomi's value and inclusion of talent.

Recruitment and Employment

We have assembled a dedicated Talent Strategy Team to work with our Human Resources Business Partners (HRBP) across all business divisions to attract talent to fill the core technical and strategic roles of the Group. Craving for talent, we have established various recruitment channels, including university-enterprise cooperation in talent cultivation projects, the Future Star Program, postdoctoral workstations, internship recruitment, experienced hires, campus recruitment, and internal referrals from employees. Our goal is to to bring together the best people from all sectors and improve the efficiency of job-to-talent matching.

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We forbid child labor and forced labor at any stage of our operations and sufficiently protect the rights and interests of all employees. Should we receive any reports of child labor or forced labor, we will immediately initiate an internal investigation to probe into the alleged violation. Based on the investigation results, we will take different measures to eliminate the impact of the violation (if substantiated), including but not limited to terminating the illegal contract and providing remedies and support for the affected.

Committed to addressing the employment challenges faced by university graduates, we build employment platforms for fresh graduates by various means. In 2023, we introduced a promotion campaign utilizing "metaverse" virtual reality. This campaign offered details about Xiaomi Corporation's campus environment and corporate culture. The "metaverse" promotion campaign received nearly 27,000 views and more than 5,000 interactions from students, significantly bolstering Xiaomi's employer image and brand recognition. In addition, we invited Xiaomi's top management and general managers to participate in campus promotion. We hosted 100 exciting promotion presentations at 87 universities and colleges in 34 cities, attracting over 16,000 students and amplifying Xiaomi's presence in universities and colleges.

During the year, we made significant enhancements to our recruitment and employment procedures. As part of our efforts, we invited some of the signed fresh graduates to visit Xiaomi's campuses and welcomed over 260 fresh graduates in Beijing, Shanghai, Wuhan, and Nanjing. This program proved instrumental in fostering a positive perception of Xiaomi Corporation and the recruitment process among the candidates. We have also set up an internal recommendation mechanism and standardized the re-employment process.

To continually stimulate organizational vitality and provide more opportunities for career development, we have implemented the "Moving Stars" flowing water[54] program. It encourages employees to proactively seek internal job applications and transfer opportunities. As a result, numerous employees have transitioned to new roles through this mechanism, which bolsters the Group's talent retention.

Diversity and Inclusion

At Xiaomi, we remain committed to building a diverse and equitable workplace, and we drive innovation with an open and inclusive environment. Guided by the principle of embracing different voices and perspectives, we offer a range of tools and resources to create a diversified work culture and a diverse, inclusive, and culturally vibrant workplace.

Commitment

We are committed to providing and safeguarding inclusive and equal opportunities for all employees in development and promotion without regard to their national origin, ethnic group, age, gender, religion, and cultural background. We support the aspirations of all employees and endeavor to promote a diverse, equal, inclusive, and open workplace.

We have set up a Women's Rights Committee and mechanisms for the prevention of sexual harassment in the workplace, as we are dedicated to supporting and protecting the rights and well-being of our female employees both at work and at home. Every year, we organize commendation activities for our female employees to foster an equitable mindset for all, and prevent any unconscious biases that may undermine our culture of equality and inclusivity. In addition to the regular baby care rooms in offices, we hosted many recreational activities for our female employees, delivered lectures on women's health, and organized HPV[55] vaccination during the year.

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54 Flowing water: It is a program for internal job applications and transfers initiated by the employees. Employees who meet the conditions of flowing water can apply for the program if there is a suitable position within the company, after a two-way choice between the employee him-/herself and the receiving department.

55 HPV: Human Papilloma Virus.

Inclusion Practices

We value the skill sets, wisdom, and resources that local workers bring to Xiaomi. By actively recruiting and developing local workers, we promote local employment. As of the end of this reporting period, we had 2,090 employees in our overseas workforce, with 1,885 of them being recruited locally. We respect employees of different faiths and cultural backgrounds and provide them with equal and inclusive career development opportunities.

In our canteens, we give full consideration to the dietary habits of different ethnic groups and regions and offer diversified food choices to accommodate employees from different cultural backgrounds. Throughout the year, we expanded our dining options for employees to provide them with nutritionally balanced and richly varied dishes while maintaining an emphasis on their dietary health. Moreover, we customize the office space to reflect the culture and characteristics of the people where we operate and offer gifts and meals that align with local customs.

Employee Well-being

Creating a Safe Work Environment

At Xiaomi, we hold a steadfast belief that people are our most valuable assets and that Environment, Health, and Safety (EHS) are core and foundational to how we grow and thrive as a business. We adhere to EHS regulations in all regions where we operate and are committed to cultivating a strong EHS management culture to ensure a safe and healthy workplace for all.

EHS Management System

We have established a comprehensive EHS management system. Guided by the EHS Safety Management Committee, which comprises of top management, we continually enforce, promote, supervise, and enhance EHS policies and management measures across the Group. In 2023, our focus within Xiaomi's EHS management system was on rules and personnel management. Regarding, we added safety norms, system documents, contingency plans, and corresponding implementation documents, and developed EHS management manuals and related documents for external contractors to adapt to new business scenarios. Concerning personnel management, we performed closed-loop management of safety risks by identifying and rectifying risk sources in the workplace to prevent accidents and eliminate major hazards. Rectification of safety duties was 100% concluded during the year.

During the year, we completed the ISO 45001[56] and ISO 14001 system certifications, covering all relevant products of the Group. Our EHS management system Program document. Throughout 2023, we achieved zero major EHS accidents, zero major losses, zero major incidents of fire, zero environmental pollution and social reputation events, and zero incidents of occupational disease or occupational health hazards.

This year, we organized EHS training programs. Among our internal EHS auditors, 20 passed the training and obtained the professional qualification certified by third-party organizations. By the end of 2023, we had a total of 42 certified internal EHS auditors, who had improved our internal EHS management quality and capability.

56 ISO 45001: ISO 45001 is an international standard for occupational health and safety management, which aims to protect against health diseases and workplace injuries and to provide a safe and healthy workplace.

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EHS Risk Management

We conduct quarterly internal audits to identify potential EHS risks. We assess the likelihood and severity of the risk with reference to the LEC method[57]. The results will guide the design and implementation of risk control measures that apply to all of Xiaomi's production and business operation areas. Through regular inspection, monitoring, and assessment, we ensure that the EHS risks are effectively controlled. In 2023, we conducted quarterly audits, special EHS safety inspections, and 343 daily inspections. We carried out immediate rectification for the hidden problems found, and 100% of the rectifications were completed on schedule.

Health and Safety Measures

During the year, we continued to invest in personal protective equipment, host emergency rescue drills, and enhance the management of hazardous areas to enhance the physical and mental wellness of our employees.

- We set up clinics and deploy medical personnel to provide medical consultations and physiotherapy and to handle safety emergencies when necessary. Throughout the year, our medical team received 8,259 consultations, provided 5,497 physiotherapy treatments, organized eight workplace emergency rescues, and supported three major events of the Group.

- We have added factory clinics to provide daily consultation and emergency protection services for factory employees.

- We placed professional Automatic External Defibrillators (AEDs) in the common areas of our facilities, such as the office lobby, employee service center, and main conference rooms. We also organized AED emergency response training for our employees.

- We installed warning signs in areas with potential health and safety hazards (e.g. laboratories), and set access restrictions in these areas.

Emergency Measures

At Xiaomi Corporation, we have established a comprehensive emergency management system to effectively manage and respond to all kinds of emergencies, including natural disasters, accidental disasters, public health incidents, and social security incidents. Throughout the year, we introduced 75 new on-site disposal plans and diligently implemented them, enhancing our emergency management system and effectively reducing the losses caused by emergencies to the economy, society, and the environment. Additionally, we have formulated a comprehensive emergency response plan and included it in the training curriculum for new employees, achieving 100% coverage.

Occupational Disease Prevention and Treatment

At Xiaomi, we prioritize the health of our employees by implementing a people-centric approach and emphasize the prevention and treatment of occupational diseases. Throughout the year, we established an occupational health management system. We ensure that our employees are protected from occupational diseases and harmful factors through on-site risk assessment, development of preventive and control measures[58], health monitoring, supervision, and inspection. At the same time, we hosted occupational health training and educational activities to enhance employees' awareness of occupational disease prevention and self-protection. 100% of our operators are licensed to work.

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57 LEC: L is Likelihood, the likelihood of an accident; E is Exposure, the frequency with which people are exposed to hazardous environments; and C is Consequence, the possible consequences of an accident should it occur.

58 Preventive and control measures: Including improving processes, using protective equipment, and providing personal protective equipment.

EHS Training and Activities

We are committed to providing comprehensive EHS training and activities to ensure that our employees are well informed about the risks and best practices associated with their work. In 2023, we provided employees of different ranks[59] with EHS training on various topics, including operational safety, fire safety, traffic safety, anti-fraud, rule of law, first aid, and electricity safety. Over 200 training sessions were conducted throughout the year, covering all employees[60].

To raise employees' attention to EHS management and strengthen Xiaomi Corporation's emergency management system, we provide emergency management system training for the whole Group. We use robots to push information to all employees and invite professional instructors to deliver lectures to provide employees with practical emergency skills courses. Our The EHS safety knowledge competition was enthusiastically received by Xiaomi employees, with more than 2,100 of them obtaining full scores.

We actively cooperate with emergency response authorities to host activities on fire and traffic safety. In November 2023, we conducted fire evacuation drills, film and video watching, hands-on operation of fire extinguishers, fire ladder experience, and a prize quiz. These activities enhanced employees' ability to respond to fire. In addition, during the National Traffic Safety Day campaign, we strengthened the awareness of traffic safety among all Xiaomi employees with traffic safety quizzes and promotion boards.

Employee Compensation and Benefits

At Xiaomi, we prioritize providing competitive remuneration and benefits to our employees. We hold on to the principles of Total Compensation and Performance-Oriented to develop our comprehensive compensation system and incentive mechanism, which is clearly outlined in Xiaomi's Employee Handbook. This transparent practice enables employees to clearly understand how their remuneration is structured.

Compensation Schemes

At Xiaomi, we are committed to fair and equitable compensation. We assess our salary level globally every year to ensure fair compensation. The senior leadership analyses compensation in terms of fairness-related metrics every year and makes necessary salary adjustments based on market competitiveness and fairness in the annual review.

Employee Benefits

At Xiaomi, we care about the physical and mental health of our employees and offer a comprehensive health benefits package, which includes a commercial insurance scheme, annual health checks, and health consultations.

In 2023, we provided additional insurance for employees and their family members with varying needs, covering 49,654 employees and their children. Our commercial insurance scheme includes:

- Providing supplementary medical insurance and accident insurance coverage for full-time employees in the Chinese mainland;
- Providing accident insurance coverage for other groups of employees (interns, outsourced employees, part-time employees) in the Chinese mainland;

59 Ranks: Including annual EHS training for the entire Group, EHS training for new employees, three-level training (the factory, workshop (department), and shift levels), and Safety Committee training for principals and safety managers.

60 All employees: Including employees away from work for a long period, employees resuming work after a work-related injury, interns, trainees, and external visitors.

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- Providing supplementary medical insurance for the children of full-time employees in the Chinese mainland; and
- Providing commercial insurance for overseas full-time employees based on the local situation.

We continue to provide annual health checks for our employees, covering all full-time employees in the Chinese mainland. In 2023, we provided more benefits and support for our employees in addition to existing health check items. We designed more targeted health checks. For example, we added glycated haemoglobin, thyroid function tests (TSH, FT3, and FT4 for the thyroid function, and three items for the electrolyte test), and bone density tests to our health checks. At the same time, we encourage our employees to undergo regular health checks every year, pay attention to abnormal indicators, and raise their health awareness. We also provide discounted health checks for family members of our employees and encourage our employees to care for the health of their family members. Moreover, we have organized several events aimed at caring for and improving the health of our employees, including the "Hello, Health" traditional Chinese medicine consultation, acupuncture and massage, distribution of healthy fruits, and oral health seminars.

We also care for our employees' mental health. Our Employee Assistance Program (EAP) continues to provide support to enhance employee mental wellness. During the year, we developed an online mental care platform system, which received 27,938 accesses from 2,162 people. We provided psychological counseling sessions, which attracted 623 employees to attend, and conducted a 12-session online training course on mental wellness and two offline lectures. We also hosted three mental wellness events for a total attendees of over 1,300.

To assist our employees in better fulfilling their responsibilities as parents or family caregivers, we provide pregnant employees with prenatal check-up leave, maternity leave, abortion leave, and breastfeeding leave, and all employees with parental leave. During the year, a total of 2,860 employees availed themselves of parental leave, with a return-to-work rate of 100% following their leave period.

To provide better returns and career development for our dispatched employees, we have increased the percentage of subsidies for dispatched employees this year. Employees are given priority for promotion upon completion of their assignments. In addition, we reimburse our dispatched employees for health checks and vaccinations and purchase special overseas travel insurance for them to ensure their personal and property safety. We also care for the needs of dispatched employees for family care and reunion by providing employees with traveling leave and reimbursing them for the air tickets to visit their families.

Employee Incentives

We value the long-term motivation of our talented workforce and actively promote our employee Share Award Scheme. In this scheme, employees will be granted share awards in recognition of their contribution, based on the assessment under the Group's performance management mechanism. In 2023, the Board awarded a total of 389.4 million shares to 8,361 selected participants.

We also attach importance to incentivizing innovation and intellectual property. In addition to the regular patent application and authorization incentives of the Group, we have instituted a patent award at the Group level to reward inventors, Xiaomi designers, and patent engineers who have made substantial contributions to patents.

Employee Communication

At Xiaomi, we are committed to supporting employees in expressing their demands and exercising their rights through various channels to ensure that their voices are heard and respected. To achieve this, we have established a diverse communication mechanism, including the labor union, HR partners, and Xiaomi's whistleblowing and complaint channels, with the goal of fostering an open and equitable work environment. Additionally, we encourage employees to actively engage in the Group's development and decision-making process, fostering collaboration to build a harmonious, respectful, and inclusive work environment.

We actively organize various activities, such as organizational capacity surveys and collective bargaining for the labor union, to promote effective communication between employees and management. We are committed to safeguarding our employees from discrimination, retaliation, harassment, and any unfavorable treatment when they express their claims and exercise their rights. This commitment applies to all levels of company operations and decision-making. When addressing employee claims and issues, we take into account labor practices and cultural differences in different regions, striving to find optimal solutions to problems through honest and constructive dialogues. We believe that by doing so, we can better understand the needs of our employees and promote a healthy corporate culture while enhancing employees' sense of belonging and satisfaction.

Talent Development

Performance Evaluation Management

At Xiaomi, we have developed a sound performance management mechanism to ensure fair employee evaluations and drive employee motivation. In our daily operations, all employees use the OKR (Objectives and Key Results) mechanism. On an annual, quarterly, and weekly basis, they align team and individual ideas for future improvement of projects with current task performance. The OKR mechanism not only enhances Xiaomi employees' understanding of the progress of the organization, teams, and partners but also enables them to evaluate their own contributions, ensuring that their efforts are directed towards top priorities. Additionally, it allows employees to track their own achievements, set ambitious goals at any time, and fuel their intrinsic motivation.

In addition to the OKR mechanism, we ask employees to conduct multi-dimensional performance evaluations every six months or a year, such as self-evaluation, 360-degree evaluation, evaluation of dotted-line superiors, evaluation by supervisors, and evaluation by departmental calibration. By evaluating employees' performance and personal growth during the evaluation period, we aim to foster employees' career development and ensure team management as a whole.

Meanwhile, employees can make appeals and seek further justification regarding their evaluation results and their pay packages. The whole appeal process and the personal information of the applicants are strictly protected by our confidentiality policies and system.

At Xiaomi, we ensure equal, transparent, and unhindered promotion opportunities for all employees. We offer fair regular promotion opportunities to employees who meet the criteria. Additionally, for those who make exceptional contributions, we provide unique incentives and promotion paths.

Training and Ability Development

Guided by the talent development philosophy to "nurture Xiaomi talents comprehensively and improve institutional capability efficiently," we are dedicated to providing comprehensive, systematic, and efficient training for our employees. These training sessions cover various topics including general education, corporate culture, cutting-edge technology, and management skills, among others. By equipping our employees with the necessary knowledge, expertise, and leadership skills to tackle everyday challenges at work and excel in their roles, we drive the achievement of Xiaomi's strategic goals.

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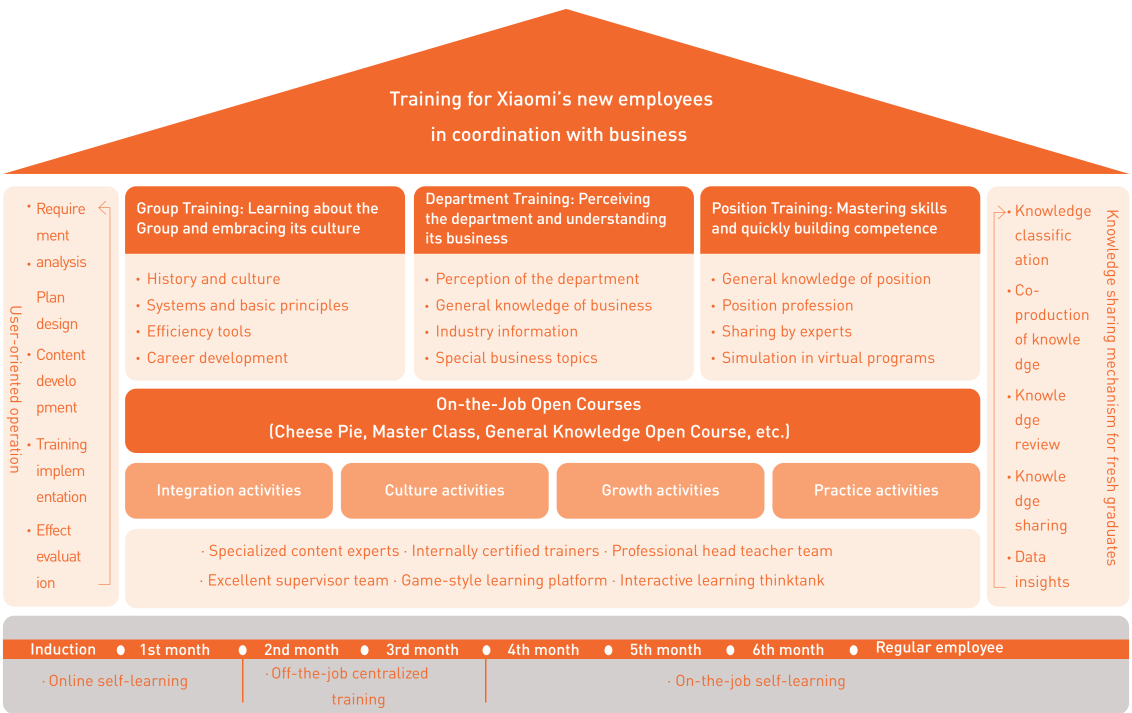
We continuously improve our employee training curriculum. During the year, we completed the transformation of self-developed courses, launching a total of 77 courses with an average employee satisfaction of 9.64/10. We introduced a knowledge deposition project for key positions, launching a total of 41 courses in four categories (data, products, sales, and localized operations and management), achieving an average course satisfaction rating of 9.7/10. Meanwhile, we made progress in piloting, implementing, and promoting our digital training platform. Throughout the year, we developed more than 6,000 courses and over 2,000 livestreaming classes and launched two certification center programs (the Induction Technology Certification for New Retail After-sales Engineers in the Chinese mainland and the Xiaomi Smart IoT Technology). These resources were accessed by over 37,000 employees, facilitating the integration of various functional roles and subject areas.

We place a strong emphasis on helping new employees integrate into our company and ramp up their professional skills rapidly through training. Our commitment is to deliver training for all new employees and interns, and we have updated and iterated the Starry Program[61] for fresh graduates, the Integration Program[62] for experienced hires, and the Xiaomi Internship Program[63] for interns. These programs are designed to help new employees better understand our company culture and policies, and nurture a strong sense of team belonging. During the year, we completed approximately 180,000 hours of new employee training and added nine new courses to our offerings.

Training and Ability Development

Starry Program:
General induction training for fresh graduates to catalyze the transition from students to Xiaomi employees



61 Starry Program: The Starry Program is Xiaomi Corporation's induction training program for fresh graduates. Its core objective is to help fresh graduates quickly complete the transition from students to Xiaomi employees, identify with the corporate culture, master the necessary workplace and job skills, integrate into working life, and become qualified new employees.

62 Integration Program: The Integration Program is an induction training program for new employees of experienced hires. Its core objective is to help trainees familiarise themselves with the Company's history, rules, and regulations, identify with the cultural values, enhance the sense of belonging to the team, and quickly integrate into Xiaomi.

63 Xiaomi Internship Program: The Xiaomi Internship Program is an induction program for Xiaomi interns. Its core objective is to help trainees familiarize themselves with the Company's values, comply with rules and regulations, master basic office skills, enhance their sense of belonging to the Company, and increase their willingness to stay and become full-time employees.

As a technology company, outstanding technical talents are our most valuable assets. Therefore, we place significant emphasis on nurturing cultivating leadership skills among our technical experts. To this end, we continuously develop courses for our mid- to high-level managers and organize internal and external knowledge-sharing events to broaden their technical perspectives. This year, we continued Xiaomi's Spark Program and Ignite Program. The Spark Program is designed for primary-level leaders. It aims to equip new managers of small-scale teams with core management skills, reinforcing their leadership fundamentals, and facilitate the role transition from individual contributors to managers. The Ignite Program is designed for middle managers. It focuses on the three dimensions of strategy, operations, and management, and aims to enhance comprehensive capabilities through leadership learning and practice projects.

At Xiaomi, we prioritize talent development, support our employees in obtaining state-level technical and professional certifications, and help them enhance their professional capabilities and professional image. During the year, about 600 employees obtained professional and technical certificates issued and certified by the Ministry of Human Resources and Social Security of China. We extend our training courses for full-time employees to newly onboarded contractors, covering the corporate culture, corporate policies, and business ethics. We have estalibshed online learning groups to offer instant assistance to our contractors and outsourced partners whenever necessary.

Engineer Culture

At Xiaomi, our commitment to technology is unwavering, and our Engineer Culture is deeply ingrained in our DNA. We are relentless in forging an Engineer Culture that celebrates innovation and optimal efficiency. Focusing on encouraging innovation, promoting exchanges, cultivating talent, and process management, we host multi-dimensional, diversified, and multi-level technical and cultural exchange events. This year, we held Xiaomi Technology Carnival 2023, Xiaomi Hackathon 2023, Xiaomi Million Dollar Technology Award 2023, the Automobile Simulator Challenge, and Data Mining Competition. These events aim to stimulate diversified technological collisions.

In 2023, we continued the theme of "Boundless Creativity, Endless Life" and held the fourth Xiaomi Hackathon, providing a platform for Xiaomi employees to practice creative ideas and exchange thoughts. This year's competition was upgraded in all aspects of the schedule and system. For the first time, it was supported by metaverse live-streaming and online roadshows, providing more opportunities for the participating teams to showcase their ideas.

A total of 311 people in 76 teams registered for this year's Xiaomi Hackathon, covering various departments and regions, demonstrating the spirit of cross-regional and cross-departmental collaboration. The competition witnessed one first prize, two second prizes, three third prizes, six honorable mentions, and four special prizes for the Starry Program. The prize-winning projects covered a wide range of fields, such as inclusive technology, child education, and cutting-edge industry exploration. As a result, 24 patent applications were submitted in 2023.

At Xiaomi, we advocate a culture of openness and inclusivity in technology. To this end, we have established the "Tech Circle," a Group-wide interactive platform for technical culture, which has so far brought together more than 46,000 participants. In 2023, 2,356 engineers contributed nearly 5,600 technical articles to the platform, reaching a cumulative readership of 1.26 million in the year. In addition, we launched the Cheese Pie program, providing a stage for Xiaomi's internal business experts to share knowledge in various fields. In the Master Class, we invite influential experts to bring professional cutting-edge knowledge sharing, helping Xiaomi employees expand their professional horizons and extend their knowledge boundaries.

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Sustainable Supply Chain

In 2023, we recognized the heightened complexity of the global supply chain. Confronted with various challenges spanning diverse laws, regulation, and labor practice markets, we have remained steadfast in promoting exemplary practices in ESG governance throughout Xiaomi's global supply chain network and within the manufacturing industry. Through years of dedicated effort, we have we have bolstered our ability to address the hidden risks in our supply chain and have demonstrated strong governance capabilities and operational efficiency in the face of escalating challenges.

ESG System for the Supply Chain

Supply Chain Management System

At Xiaomi, we understand the pivotal role of supply chain governance in the responsible purchasing of parts, materials, chemicals, services, and other essential components. To this end, we have started with a clear governance structure to enhance collaboration with our supply chain partners to mitigate risk by anticipating where future supply chain shortages or redesigns might occur. Key elements of our supply chain ESG governance encompass:

Clear Governance Structure and Guidelines

We have established a Purchasing Committee to oversee supply chain governance. The committee is comprised of senior management, representatives from the purchasing department, members of the SC, and representatives from the legal and internal control compliance departments, who directly oversee supply chain ESG issues. In addition, we have developed a Supplier Social Responsibility Code of Conduct, aligned with Xiaomi's ESG governance principles. It mandates our suppliers to comply with laws, ethical business practices, and human rights management requirements.

Embedding in supplier selection and assessment

We have embedded Xiaomi's ESG governance principles into our supplier selection process, evaluating potential suppliers based on their governance practices, compliance history, and ESG risk management capabilities. We regularly assess suppliers' compliance with governance standards through audits, assessments, and performance reviews to ensure their fulfillment of responsibilities and continuous improvement of practices.

Transparency reporting and review mechanism

We collaborate with suppliers to enhance transparency in purchasing practices and foster a competitive and fair value chain ecosystem. The Xiaomi ESG Practice Review/Evaluation Report contains detailed supply chain ESG governance information, governance practices, risk control status, compliance, and corrective actions taken for any issues. It is designed to showcase supply chain ESG governance performance[64] and prevent potential conflicts between purchasing practices and ESG guidelines.

Objective synergy and capacity building

We work with suppliers to improve ESG governance. We provide open access to our training on key topics, governance tools, resources, and support to enhance ESG governance and risk management capabilities. On climate issues, we have published supplier guides and created free resources to show suppliers the process of setting targets. We also provide coaching to guide target-setting and mitigation actions. In addition, we participate in industry initiatives and partnerships aimed at raising supply chain governance standards.

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64 Such information/reports can be accessed by requesting the S&P CSA platform (for corporate representatives) or Capital IQ Pro platform (for non-corporate representatives), the Ecovadis platform, and the CDP platform.

Enhancing contracts and agreements and their performance

In our contracts with suppliers, we include specific ESG governance clauses outlining expectations, compliance requirements, and potential consequences of non-compliance. When selecting suppliers and awarding contracts, we give preference to those with strong ESG performance. We have also developed a well-defined mechanism for non-compliance with governance standards, including measures such as corrective action, fines, and even termination of contracts.

Promoting ethical practices and anti-corruption measures

We ensure that our anti-corruption policy is clearly communicated to all suppliers and that mechanisms are in place for corruption reporting and investigation. We also promote ethical business behavior throughout the supply chain and provide training and resources to promote integrity and ethical decision-making.

Through these initiatives, Xiaomi is dedicated to promoting ESG governance practices characterized by mutual trust, transparency, and responsibility across our supply chain. These efforts not only help to mitigate risk but also effectively strengthen our relationships with suppliers, foster trust with stakeholders, and enhance our reputation for responsible and sustainable business practices.

Digital Supply Chain Management System

We leverage Xiaomi's digital strengths and apply big data and AI technologies to continuously enhance supply chain traceability, efficiency, and transparency and further mitigate ESG risks. In 2023, we updated our digital supply chain management system, further expanding its system functionality and scope. Particularly, we bolstered the module of sustainable supplier management built on the existing functions of order coordination management, quota management, supplier registration and withdrawal management, purchase category management, and demand feedback. The Supplier Corporate Social Responsibility (CSR) Management System features GHG verification, wastewater and waste disposal surveys, raw material traceability management, labor management, and more. Each feature is accompanied by key performance indicators to accurately monitor environmental and social impacts in the flow path of raw materials and manufactured goods in real time. By digital means, we have enhanced the efficiency of risk management for social responsibilities such as labor rights, achieved digital lifecycle management of our supply chain, and effectively controlled the systemic risks of our supply chain. As of the end of the reporting period, we applied the management system for the unified management of production suppliers, key components, and raw material suppliers, covering all product lines.

Climate-related extreme weather events and natural disasters may continue to increase and disrupt the chain reaction in global supply chain operations. Based on our technology and experience in natural disaster early warning on the To C application side, we have established a supply chain natural disaster early warning system to enhance supply chain climate resilience. The system directly notifies suppliers of disaster severity and improves their capacity to respond to natural disasters across four aspects: disaster control, early prediction, rapid feedback, and multi-dimensional control. Furthermore, we offer early warning and disaster impact assessment functions to safeguard the sustainability of suppliers' production and supply.

Supply Chain Risk Management

Management Rationale and Strategy

We implement a comprehensive risk management framework to detect, evaluate, and manage ESG risks associated with our supply chain, with a specific emphasis on suppliers' employment practices, environmental sustainability, and regulatory compliance. Concurrently, we are committed to seeking and harnessing ESG opportunities to create added value through win-win solutions. Anchored in our risk management strategy and business continuity system, we are dedicated to fostering more ethical, sustainable, and fair supply chain collaborations through risk control, audits, and trade secret protection.

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To improve the visibility and penetration of the supply chain, we leverage Xiaomi's advantageous mature digital governance. We have enhanced the risk management capabilities of each node enterprise in the supply chain, improved the adaptable utilization of supply chain data and the accuracy of risk prediction, and established an early warning system and emergency response mechanism. In this way, we better manage the environmental impact of our supply chain and its impact on society.

To ensure that our suppliers fully understand and pay attention to ESG risks, we set explicit social responsibility terms[65] in contracts with our suppliers, requiring them to fulfill the corresponding social and environmental due diligence obligations and to follow or refer to ISO 22301[66], ISO 14001, ISO 45001, ISO 27001, ISO 28000[67], and SA8000[68] to establish a Business Continuity Management (BCM) system. When identifying potential risks among our Tier-1 suppliers, we will take preventive and corrective measures and initiate related activities as needed. For Tier-2 and 3 suppliers, we will take similar measures as appropriate. These practices are systematically integrated into our business processes.

In our comprehensive approach to identifying, assessing, and managing ESG risks associated with suppliers, we employ various methods and tools, such as public opinion monitoring, on-site audits, assessment questionnaires, and risk assessment programs. These tools offer us with a holistic understanding of potential issues in the supply chain, enabling us to take appropriate measures to address them.

Compliance Management

We are committed to creating a safe, reliable, resilient, and competitive healthy industrial chain alongside our supply chain partners. Throughout the year, we intensified our requirements on the supplier compliance ecosystem, compliance systems, and open purchasing. To ensure a science-based and fair management approach, we refined and updated the Xiaomi Supplier Social Responsibility Code of Conduct across labor management and human rights protection, EHS health and safety, environmental standards, and business ethics. The revision was based on the code of conduct of the Responsible Business Alliance (RBA) and the Joint Audit Cooperation (JAC) Supply Chain Sustainability Guidelines and aligned with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Universal Declaration of Human Rights. We require Tier-1 suppliers to establish an ESG management system and to regularly measure performance, set targets, and share review results. We encourage Tier-1 and 2 suppliers to cascade their expectations and requirements to lower-tier suppliers, fostering a top-down ESG risk management system. We reward and support exceptional suppliers, motivating them to innovate and enhance ESG risk management. In 2023, we presented the Most Valuable Partner in Sustainability Award to seven of our supplier partners for their exemplary performance in ESG governance. We require new suppliers to sign an acknowledgment of the above guidelines to qualify for the partnership, under which they shall conform to internationally recognized labor rights protection standards and practices, as well as workplace safety standards and codes of conduct. Any violation of these guidelines during the course of the partnership will necessitate the supplier's rectification of the situation or termination of the partnership.

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65 Xiaomi Supplier Social Responsibility Code of Conduct: https://www.mi.com/global/about/sustainability#/docshow

66 ISO 22301: ISO 22301 is the international standard for Business Continuity Management Systems. It provides a framework for organizations to enhance their resilience against various unforeseen disruptions, including extreme weather, fire, flood, natural disaster, theft, IT failure, employee illness, or terrorist attack.

67 ISO 28000: ISO 28000 is an international standard for supply chain security management that is designed to help organizations take a more robust approach to better address current and future risks.

68 SA8000: SA8000, or Social Accountability 8000, is the world's first international standard for ethics. It is designed to provide a standard based on international labor rights norms and the labor laws of the country where the standard is adopted, to protect and assist all those who produce or provide services under the control and influence of the enterprise, including the enterprise itself and those employed by its suppliers and subcontractors.

Supplier Assessment and Performance

We collaborate closely with our suppliers to identify and manage ESG risks, considering their different roles, locations, and tiers within the supply chain. In addition to supplier self-assessment, audits by Xiaomi-approved third parties, and Xiaomi-led audits, we have developed a standardized toolkit tailored to various supply chain partners. It assigns scores to adverse events based on their likelihood and potential severity, allowing us to accurately quantify the impact. It also offers graded management and aids in identifying ESG risks throughout the purchase process and implementing corresponding mitigation measures. At the end of the reporting period, we conducted a specialized review of key suppliers[69] and reviewed 805 manufacturing suppliers. Among the issues identified in the reviews, 92.5% have been resolved.

As of the end of the reporting period, 42 suppliers' cooperation with Xiaomi had been suspended/terminated in Xiaomi's regular supply chain audits due to various factors include environmental issues, fire prevention, labor management, and business ethics, etc.

Evaluation Mechanism for New Supplier Onboarding

During the supplier nomination phase, we make explicit provisions on the responsibilities of both parties, deliverables, and related terms and conditions. Xiaomi's purchasers and specialists conduct on-site evaluations of the supplier. The following dimensions are also taken into account in the criteria:

- Operational quality: The indicators include operational capacity, production management capacity, production costs, quality management capacity, operational efficiency, financial capacity, and technical capacity;

- Environmental responsibility: The indicators include environmental impact in raw material purchase, process flow, manufacturing, and transport;

- Social responsibility and compliance: The indicators include labor rights, occupational health and safety management, and business ethics.

ESG compliance has long become one of the top criteria at Xiaomi when selecting and evaluating our new suppliers. This entails assessing the sustainability policy, code of conduct, ISO certifications, and ESG standards and performance of all new suppliers. If any red-line issues[70] are identified during due diligence, the concerned supplier will not be admitted to our supplier pool until such issues are rectified.

This year, we completed 987 supplier admission evaluations, of which 35 failed the assessment and were rejected. Primary reasons for their failure include prominent social responsibility issues, integrity incidents, environmental and fire safety issues, and serious compliance risks.

69 Key suppliers: Suppliers identified as having prominent ESG risks and/or strong business relevance to Xiaomi.

70 Red-line issues include but are not limited to product quality, labor management, environmental security, business ethics, and other major risk incidents.

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Xiaomi Ecosystem Transparency Reporting Mechanism

The Supplier Transparency Reporting Mechanism follows a standardized auditing process through the steps of access requirement analysis, supplier registration, information review and introduction of instructions, and training on the Xiaomi Supplier Social Responsibility Code of Conduct. It aims to ensure that suppliers meet our business standards. Ecosystem companies shall collect and submit basic supplier information and audit reports before formal assessments. We conduct the initial screening of suppliers in accordance with the Basic Admission Requirements for Xiaomi Ecosystem Suppliers and the auditing criteria in the Supplier Audit Information Sheet. Only those who meet the established thresholds can enter the next stage of Xiaomi's audit.

Third-Party Audit Mechanism

We also conduct compliance audits of our suppliers through independently certified third parties. The audit covers compliance, business partnerships, and social responsibility, and involves in-depth communication with employees and management. Items for immediate correction will be rectified on the spot after the initial review and confirmed at the end of the audit. Upon completion of the audit, the third party will provide a report and assist in monitoring the rectification of issues.

Assessment and Correction Process

We have developed a supplier self-assessment tool based on the Xiaomi Supplier Social Responsibility Code of Conduct. It covers various dimensions, including basic qualifications, employee management, and other social responsibility management, as well as environmental risks and business ethics. The tool has been distributed to all Tier-1 suppliers, who are required to provide the necessary information and supporting documents for an initial document review and to facilitate the annual self-assessment. Additionally, we encourage suppliers to obtain international standard certifications such as ISO 9001, ISO 14001, and ISO 45001, and include them in their self-assessment to enhance their sustainability capabilities.

Based on the results of the supplier assessment and evaluation, we assess the potential risks in the supply chain, determine the risk level, and optimize the supply chain risk management strategy accordingly to ensure a comprehensive understanding of the supply chain risk situation. For suppliers that fail the audit, we will take the following measures.

- We will require the supplier to remedy and rectify within a limited period, during which we will closely follow up on its progress of improvement.
- If the supplier fails to complete the rectification within the time limit or there are serious violations, we will suspend or terminate the partnership according to the situation.
- Senior management of our purchase department or the Group will communicate directly with the supplier.

EHS Assessment

We continuously strengthen our audits of contractors' and suppliers' EHS management. To reinforce contractors' awareness of safety compliance, we have established construction safety management procedures for stakeholders to ensure the safety of contractors' activities. We implement strict safety material reviews for each of the contractor's workers entering the site, and they are allowed to work only after passing the review.

We enforce stringent process management for contractors, promptly notifying them of potential safety hazards and mandating corrective actions. We strictly manage high-risk activities such as temporary fires and work-at-height, and carry out safety audits for contractors. Throughout the year, 100% of our contractors passed the safety audit, maintaining a safe work environment. We also implement mandatory supervisory measures for manufacturers as well as material contractors and suppliers across all of our operating locations. We maintain clear scope, rigorous audits, and continuous monitoring and rectification. EHS audits of suppliers are conducted through a combination of self-inspection and sampling. Any supplier that fails to meet the standards will face termination of cooperation.

Reporting Channels and Procedures

We actively listen to suppliers' opinions and suggestions, aiming to enhance our supplier management system's efficiency. To expand complaint channels for the supply chain, we have established an open reporting window on the Xiaomi Corporation Integrity and Compliance Platform. Additionally, we provide protective measures for suppliers' employees, aiming to create a more welcoming and inclusive work environment. For industry or external complaints, we specify contact information in our Supplier Code of Conduct. We also require all stakeholders to sign contracts to ensure compliance and transparency.

Responsible Purchasing

At Xiaomi, we are committed to purchasing raw materials responsibly and in particular, avoiding any funding, whether direct or indirect, for conflict-affected areas. We have made continuous efforts to trace the sources of tantalum, tin, tungsten, and gold (3TG) used in our hardware products. Additionally, we acknowledge the risk of human rights abuses in the cobalt supply chain. Our commitment remains steadfast in ensuring that these raw materials associated with Xiaomi's hardware products do not directly or indirectly finance armed groups in the Democratic Republic of Congo (DRC) and its neighboring countries.

Responsible Mining

We adhere to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, and the RBA Responsible Minerals Initiative (RMI) on responsible sourcing of minerals, and pledge not to source conflict minerals that directly or indirectly finance local armed groups. To uphold this commitment, we have developed the Xiaomi Corporation Conflict Minerals Policy, established a due diligence procedure for conflict minerals, elevated requirements for our suppliers, and set a process for identifying and preventing associated risks. Every year, we track, monitor, and report the status of conflict minerals in our supply chain.

Due Diligence Procedure

Our due diligence procedure for conflict minerals consists of the following steps.

- Establish and develop a Conflict Minerals policy, due diligence procedure and safeguard measures, and define the roles and responsibilities of internal personnel.

- Assess and identify the risk hotspots in the supply chain, and develop risk response and control procedures.

- Require suppliers to conduct due diligence on smelters and refiners, and disclose the information of smelters and refiners in accordance with the Xiaomi Conflict Minerals management template or the Responsible Minerals Initiative (RMI) Conflict Minerals Reporting Template (CMRT/EMRT) on an annual basis. Request smelters and refiners to undertake relevant certifications if necessary.

- Analyze and verify the due diligence results reported by the suppliers to ensure that the minerals are not sourced from conflict-affected areas.

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- Disclose the list of smelters and refiners who have passed our due diligence and verification. Disclose our smelters and refiners list on an annual basis.
- Engage with suppliers continuously to improve response rate and enhance the data credibility of the smelters.
- Establish communication channels for stakeholders on Conflicted Minerals management.
- Provide training on Conflict Minerals Policy and the due diligence procedures to our employees and suppliers.

Code of Conduct for Responsible Mineral Management by Suppliers

We actively work with our suppliers and require them to perform responsible mineral management. Specific requirements are as follows.

- Endorse the initiatives, processes, standards, and achievements of the Responsible Business Alliance (RBA).
- Support the work and achievements of the RBA Responsible Minerals Initiative (RMI).
- Follow the RBA Conflict Minerals Reporting Template/Extended Minerals Reporting Template (CMRT/EMRT) and Responsible Minerals Assurance Process to develop Xiaomi's Conflict Minerals management procedure and template.
- Oblige to support Xiaomi in direct or indirect communication with smelters and refiners who are involved in Conflict Minerals.
- Refer to the RBA Code of Conduct to conduct Conflict Minerals due diligence, or engage RBA-endorsed third-party audit agencies to conduct independent audits. Report the audit result and corrective actions to ensure conformance.
- Require upstream suppliers to manage minerals responsibly with reference to the RBA Code of Conduct.
- Establish policies to ensure that there is no direct or indirect contribution to financing crimes and human rights violations.

Conflict Minerals Risk Identification

Upon our efforts on managing conflict minerals, we have initiated a more extensive supply chain traceability program to trace the sources of tin, tantalum, tungsten, gold (3TG), cobalt, and mica in our products. This initiative aims to guarantee that none of these come from conflict-affected zones. We have identified the following risks based on due diligence:

- Whether the supplier is located in the Democratic Republic of the Congo or a neighboring country;
- Whether the supplier purchases ore from controlled countries;
- Whether the information provided by the supplier and its supply chain is sufficiently accurate;
- Whether basic contact with the supplier (for example, email, phone calls, Internet research, and site visits) sufficiently evidences that conflict will not be fuelled; and
- Whether conflict minerals are actually contained in our products, given the global nature of the supply chain.

Our strategy to address these risks involves aligning suppliers with our supply chain code of conduct, urging them to adhere to the standards, and considering suspension or termination of cooperation if compliance is not met.

This year, we identified a total of 420 upstream smelters and refiners across 55 countries and regions. The RMI's Responsible Minerals Assurance Process (RMAP) certifications are as follows. For those who have not yet obtained RMAP certification, Xiaomi mandates them to undergo third-party due diligence in line with RMAP requirements, or to switch to certified smelters and refiners. Moving forward, we will establish a robust disclosure mechanism for our smelters/refiners, and continue to enhance our supply chain capabilities in governance, compliance, and transparency to ensure responsible management of conflict minerals.

Xiaomi smelters/refiners with RMAP certifications in 2023

Minerals	Proportion of RMAP-certified smelters and refiners	Number of smelters/refiners
Tin	100.00%	82
Tantalum	100.00%	36
Tungsten	100.00%	50
Gold	100.00%	179
Cobalt	97.10%	69
Mica	100.00%	4

Supplier Empowerment

Supplier Empowerment

During the year, we carried out ESG capacity building with our key Tier-1 suppliers. We communicated, empowered, and collaborated on projects on sustainability topics, including management of climate change issues, emissions or pollution potential, circular economy practices, employee development, labor rights initiatives, anti-corruption, anti-bribery, conflicts of interest or anti-competitive behaviors, and supply chain management. Notably, we made key progress in avoiding pollution, minimizing emissions, and improving resource efficiency across the lifecycle of our products.

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One of our partner manufacturers is always concerned about employee rights in its labor management practices. It empowers employee development and growth in all aspects, creates a safe, healthy, and harmonious work environment for employees, and guards the "people-centric" value chain ecosystem with Xiaomi. In 2023, this partner, who undertook the production projects of some of Xiaomi's smartphone models,

- Actively fostered a diverse and inclusive corporate culture, established a fair and mutually respectful work environment, formulated the Measures for the Labour Protection of Women Employees and the Procedures for the Protection of Female Workers (Pregnant Women), and hosted regular training on the prohibition of discrimination in the workplace;
- Formulated the Management Procedures for the Prohibition of Forced Labor and the Management System for the Protection of Underage and Child Labor, and continuously regulated the process of reviewing the recruitment of employees and the procedures for remedying the employment of child labor, to ensure compliance in employment;
- Attentively listened to the voices and needs of its employees through its labor union and employees' conferences, keeping the channels of communication and exchange between the group and its employees open and unimpeded; and
- Formulated several internal EHS systems such as the Safety Operating Procedures and the Safety Management System for Special Operations, strengthened personnel training on safety risk awareness, and standardized the safety management and safety operation behaviors, effectively preventing and eliminating safety accidents and enabling the process control of safety management.
- Moreover, this partner has established reasonable position development channels, created a wealth of training resources, set up a sound career development system, and maintained a robust workforce.

Another of our partner manufacturers actively embraces Xiaomi's ESG governance principles and demonstrates our shared commitment to the net-zero goal by implementing various green energy projects and energy efficiency measures. In 2023, this partner, who undertook the production projects of some of Xiaomi's smartphones and tablets,

- Achieved its green power target of about 1,770,000 kWh per year by installing a 1,642-kW photovoltaic project;
- Constructed a 5,400-RT ice storage air-conditioning system to help shift (staggered) peak loads on the grid by 2.07 million kWh per year;
- Achieved annual electricity savings of 850,000 kWh and 1,070,000 kWh, respectively, by using high-efficiency air-conditioning units and air compressors; and
- Employed energy-efficient air-conditioning pumps and frequency-controlled intelligent control systems, waste heat recovery equipment, and acoustic imaging technology for detecting pipeline leaks. These measures achieved a total annual average energy saving of 1.98 million kWh, reducing emissions 1,263.04 tonnes (Mt) of CO_2e[71].

71 1,263.04 tonnes (Mt) of CO_2e. The project is located in Guangdong Province. The energy saving benefit data is calculated based on actual operations and the technical value in theory. The electricity emission factor is cited from the Guidelines of Guangdong Province for Carbon Dioxide Emissions Reporting by Enterprises (Entities) (Revised in 2024).

Supply Chain Finance

Xiaomi's Supply Chain Finance serves the manufacturing economy, offering the industry more suitable solutions, higher efficiency, and more adequate resources compared to traditional financial institutions. Leveraging our digital and technology solutions as a driving force, we aim to lead the enhancement of the digital service capacity of supply chain finance, benefiting from our strong position in the manufacturing economy. Our focus remains on promoting the digital upgrading of industry chain partners, accurately meeting the financial needs of supply chain enterprises, and providing diversified cash flow protection tools for safe, rapid, and sustainable business development. As of the end of the reporting period, Xiaomi's Supply Chain Finance had facilitated over RMB300 billion in funds for more than 16,000 companies in the real economy.

Social Welfare and Community Engagement

For public welfare, we always adhere to the idea of "a better world brought by technology" and the mission of "empowering public welfare development with technology and promoting technological innovation with public welfare." By engaging in proactive dialogue with users, communities, governments, and research institutions, we discern the diverse needs of society. We incorporate the concept of technological development into endeavors such as support for education and technology promotion and persistently innovate in public welfare practice models. Additionally, we enthusiastically engage in social welfare initiatives such as volunteering, disaster relief, and aiding the underprivileged. Through tangible efforts, we give back to society and enhance social well-being.

Support for Education

Talent Development: Xiaomi's Funding Programs

As an innovative enterprise based on technology, we aspire to foster and cultivate talent in social sciences and technology by leveraging our deep accumulation in areas such as technology, smart manufacturing, and AI. We have nurtured and advanced technology talent through the Xiaomi Scholarship program, the Xiaomi Young Scholars program, and the Xiaomi Sports Scholarship program initiated by the Xiaomi Foundation.

- The Xiaomi Scholarship program provides financial assistance for undergraduate and postgraduate students at distinguished universities and colleges to support the construction and development of higher education institutions in China. With an endowment fund of RMB500 million, this program is poised to support up to 70,200 undergraduate and postgraduate students at 100 universities and colleges nationwide. By the end of 2023, the Xiaomi Scholarship program had been extended to 60 universities and colleges, with plans to expand to 30 more this year, benefiting a total of 7,780 university and college students will be benefited.

- The Xiaomi Young Scholars program is designed to support young teachers and researchers who have achieved outstanding results in the fields of computer science, electronics, electronics, and basic sciences and exhibited great innovation potential. It will provide stable support for universities' personnel training, teaching staff development, and scientific research achievements. By the end of 2023, this program had covered 30 universities, with additional 10 institutions included this year, supporting more than 520 young scholars.

- The Xiaomi Sports Scholarship program aims to help outstanding but financially disadvantaged middle school athletes focus on sports training and improve their sports skills. By the end of 2023, this program had supported a total of 2,365 student-athletes from sports schools.

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Sci-Tech Innovation: Open Collaboration for Shared Progress
The Xiaomi Foundation maintains a program aimed at supporting basic research, applied basic research, and research talent development in the areas of AI and energy inclusion, justice, and resilience transformation. By the end of 2023, the program had supported 74 projects with a total funding amount of RMB108 million, involving nearly 5,000 researchers in project applications. It has significantly advanced the innovation and upgrading of cutting-edge exploration and solutions in these technology areas.

Innovative Education: Xiaomi AIoT Box

In 2023, we strengthened our integrated support for education and sci-tech innovation, focusing on the area of innovation and entrepreneurship and the cultivation of sci-tech innovation capacity among students. We launched the project of an Industry-Education Integration Community for the Next-Generation Intelligent Hardware Technology Industry, introducing the Xiaomi AIoT Box as a central tool. Our collaboration included over 150 universities and colleges, aiming to promote a new paradigm of industry-university-research integration and innovation in scientific research and talent.

The Xiaomi AIoT Box is a new embedded intelligent development tool developed by Xiaomi. It facilitates the construction of customized intelligent hardware systems through modular design. It can be interconnected with the Mijia app, which allows the simulation of IoT hardware device prototype construction. The Xiaomi AIoT Box carries Xiaomi's best practices in hardware-software integration. Moreover, by merging theoretical instruction with hardware development, it is a special tool showcasing Xiaomi's hardware-software integration features. We have tailored course content to enhance practical learning experiences of the project. During the year,

- We offered specialized courses on smart IoT development and smart IoT testing technologies for relevant programs in universities and colleges. The program operated in collaboration with a total of 35 universities and colleges, and 72 hours of training courses were designed. A total of 252,000 hours of training was provided for 3,500 students.

- We developed practical training skills courses for vocational colleges in three orientations: AI, intelligent IoT, and electronics technology. The program operated in collaboration with a total of 145 vocational colleges, and 216 hours of training courses were designed. A total of 1,879,200 hours of training was provided for 8,700 students.

- We launched youth popular science education courses for primary and secondary schools, such as smart IoT labs, smart IoT practice platforms, and smart home application scenarios. These courses aim to contribute to an overall quality system for primary and secondary schools. The program operated in collaboration with a total of three primary and secondary schools, and 10 hours of training courses were designed. A total of 1,000 hours of training was provided for 100 students.

Child Development: Xiaomi Kids Channel

In 2023, we launched Xiaomi Children's Park, a channel tailored to children's physical and mental development in the Chinese mainland. It offers a wealth of high-quality growth content regularly updated, significantly enhancing the parenting experience with a focus on science-based approaches. Xiaomi Kids Channel upholds the mission of "learning through play and happy companionship." With a rich content ecosystem and refined operation, it provides strong support to meet the needs of children's viewing entertainment and growth education. During the year,

- We built a massive library of high-quality resources that provides over 700 general education courses for enlightenment, more than 540 interactive thinking training programs, over 3,187 digital illustrated books, and over 4,000 English programs. In this way, we created an immersive language learning and mind-training environment designed to stimulate children's interest in learning and strengthen their language proficiency and mental agility.

- We launched the Museum Cinema popular science channel, which features captivating popular science films played at more than 70 museums and science centers nationwide, such as the National Maritime Museum of China and China Science and Technology Museum. Virtual visits to museums and science centers that may not be accessible in person can stimulate children's interest in science and their desire to explore.

- We introduced the Reading A-Z (RAZ) graded reading collection of illustrated books, with a total of 846 volumes. This series, which is based on an international authoritative grading system, covers 13 English reading levels from zero to junior high school level, fully meeting the English reading needs of children and teenagers.

- We curated a selection of more than 2,000 courses tailored to the learning needs of children from primary school to high school. These courses, synchronized with the school curriculum, encompass a diverse range of knowledge points, thinking development, reading and writing, and natural spelling, aiming to provide a comprehensive and multi-dimensional learning platform for children.

Disaster Relief and Early Warning

Natural Disaster Early Warning System

As the frequency of extreme weather events rises due to global warming, we have developed a natural disaster early warning system. This system accesses real-time data streams from the National Early Warning Information Dissemination Center and monitors a wide range of natural disasters such as heavy rain, typhoons, and blizzards in real time. This ensures that users can promptly access the latest information on natural disasters through Xiaomi's Natural Disaster Early Warning System and take appropriate precautions. Our Natural Disaster Early Warning System ensures direct communication of the severity of natural disasters and the risk assessment associated with them to users, employees in business positions, and partners through graded visualization of different levels of disasters. It also provides them with disaster response recommendations.

Earthquake Early Warning

The Xiaomi smartphone and Xiaomi TV, as the first mobile phone and TV operating system to integrate the earthquake early warning function, collaborate with the Chengdu Institute of Care-Life to establish a disaster prevention and mitigation information channel for thousands of households. Xiaomi's earthquake early warning now supports users in all administrative regions of the Chinese mainland and Indonesia to subscribe to earthquake early warning messages, ensuring that users can turn on the earthquake early warning function through their Xiaomi smartphones and Xiaomi TVs. The availability of this function on Xiaomi smartphones and Xiaomi TVs demonstrates our commitment to contributing to primary-level emergency response capabilities and safeguarding people's lives. By the end of 2023, we had successfully pushed nearly 92 million warnings on earthquakes at a magnitude of 4 or above worldwide.

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Emergency Disaster Relief

In the face of disasters, we immediately respond to emergencies and mobilize resources from all sectors for donations through the Xiaomi Foundation. This year, we conducted two emergency relief operations.

- In August 2023, when floods struck the Beijing-Tianjin-Hebei region, the Xiaomi Foundation immediately donated RMB25 million. The fund was primarily allocated to ensuring the safety of the victims, procuring emergency relief materials, and supporting post-disaster reconstruction of education facilities of schools that were affected by natural disasters to facilitate the resumption of normal education activities.

- In December 2023, in the face of the earthquake in Jishishan County of Gansu Province, the Xiaomi Foundation provided assistance again and donated RMB5 million. These funds were utilized for purchasing emergency relief materials and post-disaster reconstruction after the disaster. Additionally, we raised funds from the public to provide urgently needed daily necessities for affected families.

To improve the efficiency and efficacy of disaster relief, the Xiaomi Foundation has released an Emergency Relief Project Manual. This manual offers standardized and systematic guidance on processes and tools for disaster relief and post-disaster reconstruction. It also ensures our ability to actively monitor, rapidly respond to, and effectively track disaster situations and reconstruction progress.

Rural Revitalization

At Xiaomi, we actively respond to the strategy of rural revitalization and leverage our technological strengths to support the construction of beautiful villages. In 2023, we collaborated with the Image Specialized Committee of the Popular Culture Society of China to conduct research and launch the "Visual Nanping" project. This project aimed to explore the unique rural culture of Nanping and promote its upgrading, developing tourism and special industries based on agricultural products, and supporting young people in returning home to start a business and rural revitalization.

Collaborating with local residents to create a visual enhancement Program for Nanping, we drew professionals from different fields to rural areas through design and cultural activities. We insisted on blending and intersecting innovative design with local culture, capturing and disseminating the story of Nanping culture in visual design. Xiaomi's public welfare designers outlined a VI application plan for Nanping encompassing design concepts, logos, fonts, and colors, tailored to both the characteristics of the scenery and the brand image. Through these efforts, we contributed Xiaomi's ingenuity to the preservation of rural culture and the development of new rural areas.

Volunteering

At Xiaomi, we are committed to promoting volunteering and charity and exploring new models of social responsibility through our employees and Xiaomi Fans. This year, we organized 15 employee volunteer activities around themes such as "Agricultural Assistance," "Elderly Assistance," and "Education Assistance." These activities involved a total of 161 members of the Xiaomi Youth Volunteer Team, who collectively contributed over 2,460 hours of service time.

Agricultural Assistance

At Xiaomi, we are actively engaged in agricultural assistance and benefits and committed to promoting the sustainable development of green agriculture. Our "Visual Nanping" rural revitalization volunteering project focuses on driving economic and social advancement in Nanping Village, Anhui Province. By exploring new paths of village governance, Xiaomi's youth volunteering team has promoted complementary strengths and resource sharing. In September 2023, we established the Xiaomi Agricultural Assistance Foodie Club, which has launched nine agricultural products, effectively addressing the problem of unsold fruits faced by villagers from Nanping.

Elderly Assistance

We remain steadfast in building a people-centric elderly-friendly support system and seek solutions to addresss the needs of elderly users and enable that they benefit from the convenience brought by the digital age. Throughout the year, the Xiaomi Youth Volunteer Team launched the "Bringing Warmth to the Community" elderly assistance event to help the elderly. Volunteers provided guidance to elderly residents in the community on the basic operation of smartphones, especially the safe utilization of payment features, to enhance the confidence of the elderly in digital payment. We launched many other elderly assistance events and made visits to research the elderly-friendly configuration of AI Assistants.

We are also active in elderly assistance. During Christmas 2023, Xiaomi Germany, in cooperation with an external agency, built a senior activity center for the elderly in Duesseldorf and donated EUR 17,000. By supporting the work of the senior activity center, we facilitated exciting outings and activities for seniors.

Education Assistance

At Xiaomi, we remain dedicated the notion of technology-enabled education assistance. We continually deepen school-enterprise cooperation, striving to extend and expand education assistance, with the goal to inspire young people to leverage their intellect and creativity for a better future. Xiaomi's Youth Volunteer Team launched the Enlightenment Education and Practice Program for Technology Careers to raise primary and secondary school students' awareness of technology careers. The program includes field studies, visits, and lectures by industry experts. It has popularized science and technology education and broadened students' horizons for career enlightenment.

In 2023, we continued to launch Xiaomi Fan volunteer activities, encouraging Xiaomi Fans' active involvement in philanthropic endeavors. This year, we hosted 38 Xiaomi Fan volunteer activities with a total of 190 volunteer hours, in which more than 400 Xiaomi Fan volunteers participated. During Xiaomi Fan Charity Month, we led Xiaomi Fans to participate in online and offline volunteer activities and to feel and support public welfare. Xiaomi Fan volunteers interacted closely with people with mental disabilities, contributing to a social environment that is inclusive of employment for this group. In addition, we organized six disaster prevention and mitigation training activities, where Xiaomi Fan volunteers learned disaster self-rescue and mutual-rescue skills under guidance and training and carried out earthquake escape drills. Through these activities, we aimed to instill the professional concept of emergency response.

In July 2023, we donated nearly RMB200,000 from the sales of the Eco-friendly Recycled Cotton Fashion Sweater Design event to the Raising Little Ears public welfare project initiated by the Audiology Development Foundation of China. The fund was used to help children with a hearing impairment in difficulty across the country. In the Sweater Design event, Xiaomi Fans and children with a hearing impairment were invited to create painting works.

During the Xiaomi Fan Festival, Xiaomi Net hosted a public welfare painting event with Xiaomi Fans and children with autism. Proceeds from the sales of the charity-edition sports water bottles created will be donated to the One Foundation's Ocean Paradise Project.

Charitable Donations

At Xiaomi, we actively contribute to philanthropy and promote the ideals of humanitarianism and social welfare through charitable donations. This year, the Xiaomi Buy42 project achieved remarkable results in donations by donating more than 2,000 pieces of supplies with a total value of more than RMB860,000, further underscoring Xiaomi's positive role in creating social value and promoting sustainable development.

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Governance and Compliance

Corporate Governance

ESG Vision

ESG has been an integral part of our corporate development strategy and has been seamlessly woven into our business operations and management. Committed to technology fields with long-term value to human civilization, we prioritize sustained investments. We relentlessly build amazing products with honest prices and employ innovative and sustainable technologies that are green, inclusive, and affordable to fulfill our commitment to letting everyone in the world enjoy a better life through innovative technology.

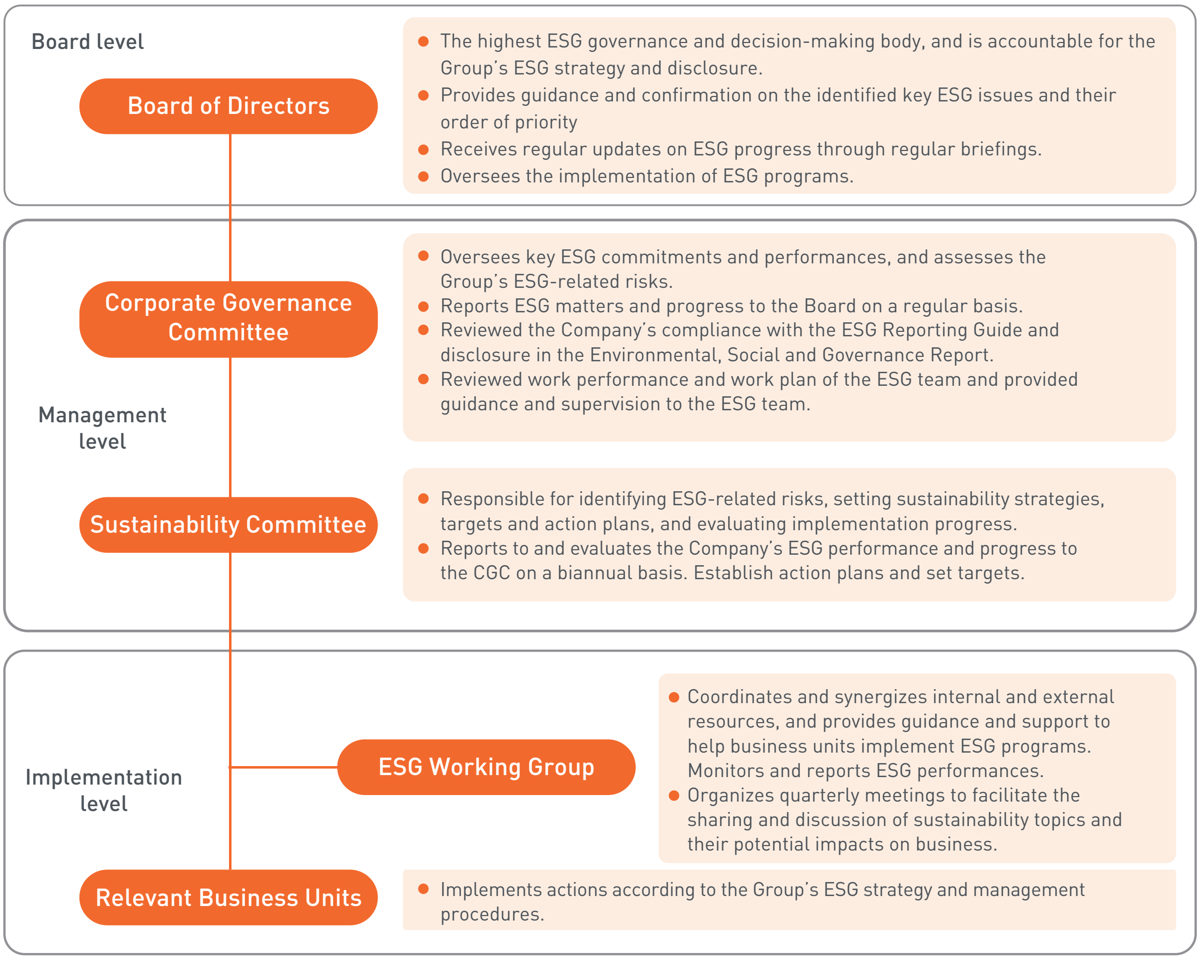
ESG Governance Strategy and Structure

We always believe that good governance serves as the cornerstone for sustained corporate growth. Continuously enhancing our ESG management system is conducive to fostering the healthy and sustainable development of Xiaomi. We employ an efficient risk management and control mechanism to identify major ESG risks and develop risk mitigation measures to facilitate the sustainable development of our operations and business.

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

With these comprehensive governance and implementation mechanisms, we have improved our performance in environmental protection, social responsibility, and corporate governance, and enhanced the effectiveness of our ESG practices, laying a solid foundation for the Group's sustained development.

ESG Governance Strategy and Structure



ESG Governance Performance

In the year, we advanced our ESG deployment and practices in all aspects and made remarkable progress. Our key recognitions are as follows:

- Inclusion in S&P Global's Sustainability Yearbook (China);
- Industry Mover in S&P Global's Sustainability Yearbook (China);
- Downgraded to "Low Risk" in Morningstar's Sustainalytics risk rating;
- MSCI ESG rating lifted to BB;
- Upgraded to "B" in the Climate Change Questionnaire and "C" in the Water Security Questionnaire of the Carbon Disclosure Project (CDP);

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- Gold Medal in EcoVadis Sustainability Rating, ranking top 3% in the global industry;
- China's Best Employer of the Year by Forbes;
- Best ESG in the Technology Hardware sector by Institutional Investor;
- Nomination as the top 10 projects in the Sustainable and Green Innovation category by Paulson Institute;
- Sustainability Performance Award for 2023 by the British Standards Institution (BSI);
- ESG Company to Watch of the Year by Bloomberg Green;
- ESG Best Practice of China's Listed Companies by Wind; and
- Inclusion in China's Most Admired Companies 2023 by Fortune.

Corporate Governance

At Xiaomi, we uphold the principles of promoting effective internal control measures, increasing the transparency of the work of the Board of Directors, and enhancing the accountability of the Board to all shareholders in fulfilling our commitment to maintaining and promoting stringent corporate governance standards. The Board will continue to enhance its corporate governance practices in line with Xiaomi's business conduct and growth and review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest mandates. For more information about Xiaomi's corporate governance principles, norms, and performance, please refer to the "Corporate Governance Report" section in the annual report.

Board Independence

At Xiaomi Corporation, we observe the principle of Board independence. Board members are not related to each other. Throughout the Reporting Period, the Board met the requirements of the Listing Rules regarding the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. To provide transparency to the investor community, the independent non-executive Directors of the Company are clearly identified in all corporate communications containing the names of the Directors. We have received written annual confirmation from each of the independent non-executive Directors in respect of their independence. For detailed information about the list, biographies, roles, and responsibilities of Xiaomi Corporation's Board members, please refer to the "Report of the Board of Directors" section in the annual report and the "Board Members" page on the Xiaomi Corporation's website (https://ir.mi.com/corporate-information/board-of-directors).

Board Diversity

At Xiaomi Corporation, we recognize the benefits of diversity in Board membership (including gender diversity) and the importance of Board diversity in maintaining the Group's competitive advantage and attracting, retaining, and motivating employees. Therefore, we have adopted a board diversity policy (the "Board Diversity Policy"). Pursuant to the Board Diversity Policy, when reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The Nomination Committee will also discuss periodically and agree on the measurable objectives for achieving diversity (including gender diversity) on the Board and recommend them to the Board for adoption.

During the reporting period, all of the Board are male. On January 8, 2024, Prof. Tong Wai Cheung Timothy resigned as an independent non-executive Director and Ms. Cai Jinqing was appointed as an independent non-executive Director, further enhancing the gender diversity of Xiaomi's Board membership. To further ensure gender diversity of the Board in the long run, the Nomination Committee will periodically review the Board Diversity Policy and monitor its continued effectiveness. We will also continue to take opportunities to increase the proportion of female board members workforce over time as and when suitable candidates are identified.

During the reporting period, the Board reviewed and considered the implementation of the Board Diversity Policy to be on track. The implementation of the Board Diversity Policy is evidenced by the fact that our Directors are from a diverse age group with experience from different industries and sectors. The Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of computer science, engineering, business administration, human resources, finance, and corporate governance.

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

Director's Remuneration Policy

Xiaomi Corporation's executive remuneration is closely linked to ESG performance. ESG performance focuses on non-financial targets, which are set in alignment with Xiaomi's sustainability strategy and encompass environmental innovation performance, attractiveness as an employer, and EHS management outcomes. This remuneration structure encourages the management to focus on long-term strategic goals for sustainable development and to achieve long-term value growth for Xiaomi Corporation.

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

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

- any corporate policies or goals as resolved by the Board from time to time;
- factors such as the level of remuneration paid by comparable companies, the time committed by the Directors and their responsibilities, and the employment conditions elsewhere in the Group; and
- the level of remuneration necessary to attract and retain directors for successful management of the Company.

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Business Ethics

Business Ethics Management System

Xiaomi is committed to conducting business ethically and strict adherence to all applicable laws and regulations. We have enhanced our ethics management based on the Xiaomi Group Ethics Committee. The Group's top management listens to reports on the progress of major projects, plans and oversees the Group's efforts in business ethics, and provides employee training in this regard. This committee is also the highest body for the investigation and accountability of misconduct and violations by employees, and it reports to the Board on the Group's anti-corruption and anti-bribery management. We also have a Safety Investigation Department dedicated to the Group's supervision undertakings, including ethical enhancement, system optimization, awareness raising, conflict of interest assessments, accountability for misconduct and violations, complaint and whistleblowing management. The General Manager of the Group's Safety Investigation Department regularly reports to the Board of Directors. For more about Xiaomi's business ethics, please refer to the Sustainability page on the Group's official website (https://www.mi.com/global/about/sustainability).

Anti-corruption and Anti-bribery

At Xiaomi, we uphold the principles of openness, fairness, transparency, and integrity, maintaining a zero-tolerance policy against bribery and corruption. Our objective is to achieve "full coverage and no restricted area" in anti-corruption management. In this regard, we also closely follow the top prohibitions to "strictly forbid offering and accepting bribery," "severely punish embezzlement," "forbid personnel corruption," and "avoid conflicts of interest." In the year, under a standardized internal management system and a sound accountability system, the Ethics Committee, the Human Resources Department, and the legal team collaborated to update safety and anti-corruption terms in the Employee Handbook. They also supervise the implementation of the Employee Handbook, the Employee Code of Conduct, and the Code of Integrity of Xiaomi Corporation in the Group. Our Employee Handbook outlines the principles and requirements to guide our employees in lawful and ethical business practices. Upon joining the Group, employees are required to sign an acknowledgment letter, which is an express commitment to compliance with all the rules and regulations in the Employee Handbook. During the year, all employees in purchasing positions at the Group signed the Conflict of Interest Declaration Commitment. In 2023, we passed the review of ISO 37001 Anti-Bribery Management Systems, further improved the anti-corruption management framework, prevented and reduced the risk of bribery and corruption, and promoted Xiaomi's business ethics culture. During the year, we received the 2nd Integrity and Compliance Innovation Award for Private Enterprises, the Best Innovation Project of the 2nd Integrity and Compliance Innovation Award for Private Enterprises, and other recognitions.

At Xiaomi, we prioritize anti-corruption training for all relevant roles, including employees, suppliers, contractors, and partners. For key positions within the Group (including the supply chain and the purchasing chain), reserve managers for the position of General Manager, and other high-ranking positions, we host special training. In 2023, we hosted 64 training sessions on ethics and safety, conflicts of interest, and integrity self-discipline, and one anti-corruption training session for management and the Board of Directors. The training achieved 100% coverage of management and employees, with over 50,000 participants in total. Among those sessions, there was one anti-corruption session for management and the Board of Directors. For middle and senior management of international business, we hosted two anti-corruption training sessions in light of the local laws, regulations, and policy requirements of the foreign countries and regions where we operate. They provided systematic introductions to local regulatory requirements and countermeasures, which strengthened the managers' compliance awareness. We also hosted 17 integrity self-discipline training sessions for local employees in the foreign countries and regions where we operate, including India, Thailand, Malaysia, Nepal, Poland, Spain, and Portugal. The training further enhanced overseas employees' performance in integrity self-discipline. We also regard business ethics as an integral part of the selection of suppliers, contractors, and partners. We require all partners to sign an integrity agreement at the same time as signing a business contract.

At Xiaomi, we require every employee to conduct business ethically and in full compliance with applicable laws and regulations. This year, Xiaomi was not involved in any corruption-related litigation cases. We have opened separate whistleblowing channels for external and internal sources and have established a dedicated whistleblowing mechanism to ensure that the reports of misconduct are being handled in a secure, unimpeded, reliable, and effective manner. For external whistleblowers, if they encounter or suspect any misconduct by a Xiaomi employee, such as bribery, offering/receiving gifts or entertainment illegally, misappropriation of benefits, false reimbursement, or financial malpractice, they can report to Xiaomi through official channels. Within the Group, we have built an independent Open Xiaomi portal to showcase our management system, key policies, social responsibilities, and whistleblowing channels for an open workplace. Employees and other stakeholders from all markets in different countries and regions where Xiaomi operates can raise their concerns through the following public channels:

Email: tousu@xiaomi.com
Global integrity whistleblowing website: https://www.mi.com/global/service/integrity/#process

To better protect and reward whistleblowers, we have formulated the Whistleblower Protection and Reward Policy of Xiaomi Corporation. This policy aims to support Xiaomi's employees, suppliers, contractors, and partners to actively participate in building a supervisory system characterized by openness, fairness, transparency, and integrity. A whistleblower may receive up to RMB1 million in cash rewards for proven misconduct.

Anti-money Laundering

At Xiaomi, we uphold a risk-based approach. We strictly comply with the Anti-money Laundering Law of the People's Republic of China, the requirements set out in the Guidelines for the Self-assessment on Risks of Money Laundering and Terrorist Financing of Corporate Financial Institutions issued by the People's Bank of China, and other applicable laws and regulations in regions where we operate, to fulfill our obligation in preventing money laundering across boarders and countering terrorist financing. We also dedicate efforts to identifying customers and large and suspicious transactions, reporting suspicious transactions, and relevant training and promotion. All levels of the Group actively fulfill anti-money laundering duties as per the Group's Basic Management System for Anti-Money Laundering. The risk management of money laundering and terrorist financing has been included in the deliberations of the Board of Directors. Under the coordinated management of the Board of Directors and the guidance of the Countering Terrorist Financing Leadership Group, we have made steady progress in money laundering risk management. Through a digitized monitoring system, we monitor and assess suspicious transactions, users, and financing activities and perform anti-money laundering and countering terrorist financing undertakings such as customer identification, transaction data analysis, and data confidentiality management. We perform internal anti-money laundering audits by combining system audits and human reviews, which has significantly enhanced the efficiency and accuracy of our audits. Throughout the year, we conducted a special anti-money laundering audit, which indicated that Xiaomi was not involved in any money-laundering activities.

In 2023, we hosted several anti-money laundering training and publicity sessions. Internally, we hosted eight training sessions for senior management and employees, with a total duration of over 15 hours. The training focused on regulatory trends, major concerns, and the interpretation of key documents in the area of anti-money laundering, which enhanced employees' anti-money laundering awareness. Furthermore, we have actively fulfilled the responsibility of educating the public and organized anti-money laundering and anti-organized crime law campaigns for the general public. We produced original short promotion videos on preventing telecom and Internet fraud. These videos have conveyed our anti-fraud messages to the general public.

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Anti-monopoly and Anti-unfair Competition

At Xiaomi, we put a high emphasis on anti-monopoly and anti-unfair competition compliance and recognize and advocate the value of fair competition. In compliance with external laws and regulations such as the Anti-monopoly Law of the People's Republic of China and the Guidelines for Competition Compliance of Undertakings, we have established anti-monopoly and anti-unfair competition compliance systems at the Group level. The Group's legal team coordinates our domestic and abroad anti-monopoly compliance and actively implements the internal policy, Anti-monopoly Compliance Code of Conduct of Xiaomi Corporation. For our overseas business, we have formulated the Xiaomi Group International Antitrust Compliance Work Guideline, which promoted Xiaomi's compliance culture of fair competition overseas and strengthened our ability to prevent anti-monopoly legal risks abroad. Throughout 2023, there were no legal proceedings against Xiaomi in relation to monopoly or unfair competition behavior.

Employees' anti-monopoly and anti-unfair competition awareness is essential to compliance risk management. Thus, we have incorporated requirements on anti-monopoly and anti-unfair competition into the Code of Conduct of Xiaomi Corporation. In 2023, we hosted nine anti-unfair competition training sessions in the Chinese mainland for 950 participants. Over 1,000 employees participated in 31 anti-monopoly compliance training sessions hosted for our China and international businesses. These sessions provided explanations of domestic and international anti-monopoly laws, risk scenarios and cases, compliance requirements and guidance. They raised awareness of anti-monopoly and anti-unfair competition legal risk prevention among all employees.

Protection of Intellectual Property (IP)

At Xiaomi, we are committed to innovation-driven development. We place equal emphasis on innovation and quality, and bring our technological innovations to the general public through IP practices. In turn, IP practices empower and ensure our innovation. In the year, based on the Intellectual Property White Paper, we further advanced the Group's IP protection practices. Prioritizing the construction of IP policies and systems, we have established a robust IP protection system, safeguarding the fruits of our intellectual endeavor in an open and friendly way while respecting those of others. Our IP management framework encompasses patents, trademarks, open-source, data, and privacy. Managed by our legal team, all business units have actively put management into practice, reinforcing Xiaomi's line of defense for IP.

As of the end of the reporting period, we had obtained more than 37,000 patents globally. At the end of the year, we unveiled Xiaomi EV's first model SU7, marking the successful launch of Xiaomi EV's five self-developed core technologies (E-Motor, Battery, Xiaomi HyperCasting Technology, Xiaomi Pilot Autonomous Driving, and Smart Cabin). As of the end of December 2023, Xiaomi EV's technological innovations in motors and electronic control systems as well as batteries were granted 60 and 65 patents, respectively.

We value mutual benefits and win-win outcomes in the industry and actively participate in industry exchanges and judicial practices. Leveraging Xiaomi's extensive practices and experience in the global IP area, we offer best practice cases for the industry and recommendations for the development and amendment of laws and IP-related industry policies in major jurisdictions around the world, thus driving enhancements in the global IP system. In the year, we were honored with the 24th China Patent of Excellence Award, underscoring Xiaomi's prominent contribution to technological innovation and economic and social development.

Compliance in Advertising

At Xiaomi, we abide by the Advertising Law of the People's Republic of China, the Measures for the Administration of Internet Advertising, and other applicable laws and regulations of the locations where we operate. We also comply with the Measures for Quality System Review and Management of Xiaomi Corporation and other internal management systems of the Group. Relevant departments of Xiaomi collaborate to manage the compliance of our products and services advertisements concerning the content, quality, and qualification of our advertising partners. We strictly conform to the requirements of each advertising platform to prepare our advertisement content, and the corresponding materials such as legal qualifications, for audit and verification by the platforms before it can go live and reach the audience. Additionally, we have established a complaint mechanism to investigate feedback and improve our advertisement management. During the year, the system operated effectively, and there were no major legal proceedings or penalties against Xiaomi in relation to compliance in advertising or relevant public opinion events.

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Key ESG Performance Indicators[72]

Key Environmental Indicators[73]

Based on Xiaomi's current operations, Xiaomi's key environmental indicators for 2023 are listed below:

Use amount

	Unit	2023	2022	2021	2020
Total Comprehensive Energy Consumption[74]	MWh	**211,171.84**	144,741.38	144,626.56	118,397.58
Direct Energy Consumption	MWh	**19,418.57**	5,190.84	8,691.42	5,586.69
Indirect Energy Consumption	MWh	**191,753.27**	139,550.54	135,935.14	112,810.89
Indirect Energy Consumption:					
Renewable Energy	MWh	**372.00**	—	—	—
Total GHG Emissions (Scope 1 and Scope 2)[75]	tonne (Mt) of CO_2e	**116,722.56**	85,742.61	82,820.16	66,481.29
Direct GHG Emissions:					
Scope 1	tonne (Mt) of CO_2e	**12,252.52**	7,122.60	9,096.95	8,402.12
CO_2	tonne (Mt) of CO_2e	**3,921.26**	1,045.96	1,755.13	1,117.96
CH_4	tonne (Mt) of CO_2e	**1,900.75**	1,862.90	2,222.34	2,179.62
N_2O	tonne (Mt) of CO_2e	**1.97**	0.55	0.86	0.00
HFCs	tonne (Mt) of CO_2e	**6,428.54**	4,213.19	5,118.62	5,104.54
Indirect GHG Emissions:					
Scope 2	tonne (Mt) of CO_2e	**104,470.04**	78,620.01	73,723.21	58,079.17

72 The key ESG performance indicators listed here include, but not limited to, the same scope as the consolidated corporate statements, and data of the actual operations of the controlling business and facilities in some cases. Numbers and percentage figures in this section have been subject to rounding. Any discrepancy between the total and the sum of the amounts listed is due to rounding.

73 The data presented in this chapter has been assured by an independent third-party verification organization. The assurance certificate is available on the Sustainability page of Xiaomi's Website: https://www.mi.com/global/about/sustainability.

74 The total amount of energy consumption was calculated based on the consumption of purchased electricity, purchased heat, natural gas, gasoline, and diesel, using the conversion factors specified in the national standard General Rules for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2020) of the People's Republic of China. Direct energy consumption includes the consumption of natural gas, gasoline, and diesel for the Company's operations, while indirect energy consumption includes those from purchased electricity and purchased heat for the Company's operations. This year, the increase in total energy consumption is mainly due to the launch of Xiaomi's automobile business line, including the direct and indirect energy consumption of the automotive factory of 14,638.78 MWh and 37,068.28 MWh, respectively.

75 The Group's calculation of GHG emissions was based on the Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard, ISO 14064-1:2018 — Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals, as well as other applicable national, local, and industry standards. This year, the increase in carbon emissions is mainly due to the launch of Xiaomi's automobile business line, including the Scope 1 and Scope 2 emissions of the automotive factory of 4,244.79 tCO_2e and 18,451.93 tCO_2e, respectively.

	Unit	2023	2022	2021	2020
Scope 3 GHG Emissions	tonne (Mt) of CO_2e	**The data is expected to be disclosed in September 2024.**	10,075,225.54	12,368,223.29	—
Total Water Consumption					
Water Withdrawal[76]	tonne (Mt)	**683,906.94**	510,156.05	463,663.00	303,132.92
Fresh Water Consumption	tonne (Mt)	**523,100.75**	391,953.85	329,572.00	187,339.02
Reclaimed Water Consumption	tonne (Mt)	**164,353.00**	118,202.20	134,091.00	115,793.90
Water Discharge	tonne (Mt)	**562,194.62**	—	—	—
Non-hazardous Waste	tonne (Mt)	**7,174.83**	7,052.28	6,328.88	4,661.07
Hazardous Waste[77]	tonne (Mt)	**95.78**	1.43	2.50	0.37
Total Packaging Materials Used for Finished Products	tonne (Mt)	**4,254.86**	5,065.08	—	—
Air Pollutant Emissions[78]					
NOx Emissions	tonne (Mt)	**0.33**	—	—	—
VOCs Emissions	tonne (Mt)	**0.21**	—	—	—

Use Intensity

	Unit	2023	2022	2021	2020
Energy consumption per unit of revenue	MWh/RMB million	**0.78**	0.52	0.44	0.48
Per capita energy consumption	MWh/person	**6.28**	4.45	4.33	5.36
GHG emissions per unit of revenue	tonne (Mt) of CO_2e/RMB million	**0.43**	0.31	0.25	0.27
Per capita GHG emissions	tonne (Mt) of CO_2e/person	**3.47**	2.63	2.48	3.01
Per capita tap water consumption	tonne (Mt)/person	**15.56**	12.04	9.86	8.49
Per capita non-hazardous waste	tonne (Mt)/person	**0.21**	0.22	0.19	0.21
Per capita hazardous waste	Kg/person	**2.85**	0.04	0.07	0.02
Product packaging material consumption per unit of revenue	tonne (Mt)/RMB million	**0.02**	0.02	—	—

76 Water resources used by Xiaomi include running water and reclaimed water from the municipal water supply system, which is provided by third-party utility company. Xiaomi has not encountered any events of water shortage. This year, we expanded the scope of our water resource-related data to include those from our new self-operated campus and more leased office areas.

77 The increase in the total amount of hazardous waste during the year is mainly due to the launch of Xiaomi's automobile business line.

78 From this year on, we consolidate the indicator disclosure of air pollutant emissions with new indicators added to more comprehensively present our environmental performance data.

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Environmental Target and Review

We set environmental targets. Every year, we review the environmental targets for the previous period and further improve or formulate a more comprehensive set of environmental targets to cover our value chain. The Board of Directors has reviewed the review results of the 2023 environmental targets and reviewed and approved the 2024 environmental targets.

Topic	2023 Targets	Target completion status for this year	2024 Targets
Energy	By 2026, reduce energy consumption per 10,000 RMB of revenue for ISO 50001-certified facilities by at least 2.5% as compared to the 2021 baseline.	Energy conservation and consumption reduction measures are being progressed towards the 2026 target. For details, please refer to the "Energy Management" section.	By 2026, reduce energy consumption per 10,000 RMB of revenue for ISO 50001-certified facilities by at least 2.5% as compared to the 2021 baseline.
Greenhouse gas	By no later than 2030, reduce GHG emissions[79] from our main operating segments[80] to at least 30% of the base year[81] level; By no later than 2040, reduce the emissions from the main business to 2% of the emissions in the base year and create conditions for net zero emissions; Prioritize the use of low-carbon technologies, long-term green power purchase agreement, and on-site renewable energy generation to reduce GHG emissions throughout our target period;	GHG emissions reduction is being progressed towards the 2030 and 2040 targets. For details, please refer to the "Tackling Climate Change" section and 2023 Xiaomi Corporation TCFD report.[82]	By no later than 2030, reduce GHG emissions from our main operating segments to at least 30% of the base year level; By 2035, use 100% renewable electricity in our own operations; By 2040, achieve carbon neutrality in our own operations of existing business segments[83], use 100% clean heat in our own operations, and use 100% renewable energy;

79 GHG emissions: Refers to the Company's GHG emissions (absolute value) calculated in accordance with standards such as Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard, ISO 14064-1:2018—Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals.

80 Main operating segments: Smartphone, IoT and Lifestyle products, Internet Services, and others (same scope as the operating segments stated in the 2023 Annual Report).

81 Base year: 2021.

82 2023 Xiaomi Corporation TCFD report: For more information about Xiaomi's response to climate change, please refer to the Sustainability — Climate Change page on the Group's official website (https://www.mi.com/global/about/sustainability#/climate).

83 Existing operating segments: Smartphone, IoT and Lifestyle products, Internet Services, and others, as in the business scope in Xiaomi Corporation's latest earnings announcement.

Topic	2023 Targets	Target completion status for this year	2024 Targets
	Encourage key suppliers to establish renewable energy usage and GHG emission reduction targets that are comparable to or more ambitious than those of Xiaomi to deliver continuous reduction in our Scope 3 emissions.		Prioritize the use of low-carbon technologies and self-built renewable energy power generation facilities to reduce GHG emissions and increase the share of renewable energy in electricity consumption through long-term green power purchase agreements to reduce GHG emissions throughout our target period; Encourage key suppliers to establish renewable energy usage and GHG emission reduction targets that are comparable to or more ambitious than those of Xiaomi to deliver continuous reduction in our Scope 3 emissions.
Water	At our own campus, achieve at least 30% use of reclaimed water and a minimum of 50,000 m^3 in water saving in 2023.	This year, the use of reclaimed water in Xiaomi's own campus reached 36.85%; The annual water saving target was accomplished.	At our own campus, achieve at least 30% use of reclaimed water and a minimum of 50,000 m^3 in water saving in 2024.
Waste	Over the next five years (from 2022 to 2026), we are committed to achieving an accumulative recycling volume of 38,000 tonnes (Mt) of e-waste, and using 5,000 tonnes (Mt) of recycled materials in our products.	By the end of the reporting period, we had accomplished 44% of our waste recycling target.	Over the next five years (from 2022 to 2026), we are committed to achieving an accumulative recycling volume of 38,000 tonnes (Mt) of e-waste, and using 5,000 tonnes (Mt) of recycled materials in our products.

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Key Social Indicators

Employees

	Unit	2023	2022	2021	2020
Total Workforce[84]	Person	**35,116**	35,997	33,415	24,810
By Employment Type					
Full-time Employees	Person	**33,627**	32,543	33,427	22,074
Other Types of Employees	Person	**1,489**	3,434	1,988	2,736
New Employees					
Number of New Employees	Person	**7,257**	9,643	17,089	—
Male	%	**73.65**	69.35	66.70	—
Female	%	**26.35**	30.65	33.30	—
Profile of Full-time Employees					
By Gender					
Male	%	**69.24**	67.48	66.48	65.86
Female	%	**30.76**	32.52	33.52	34.14
By Age Group					
Under 30	%	**35.76**	39.40	43.69	47.32
30–50	%	**63.51**	59.74	55.51	52.14
Above 50	%	**0.73**	0.86	0.80	0.53
By Professional Category					
Technical	%	**44.79**	49.05	43.65	47.49
Non-technical	%	**55.21**	50.95	56.35	52.51
By Cohort Level					
Senior	%	**1.05**	0.99	0.92	1.13
Male	%	**83.24**	82.61	—	—
Female	%	**16.76**	17.39	—	—
Mid-Level	%	**46.98**	40.63	36.45	33.46
Male	%	**74.05**	73.91	—	—
Female	%	**25.95**	26.09	—	—
Junior	%	**51.97**	58.38	62.64	65.41
Male	%	**64.63**	62.76	—	—
Female	%	**35.37**	37.24	—	—
By Geographic Region					
China	%	**94.18**	92.39	93.08	93.26
Other Asian Countries and Regions	%	**4.05**	5.54	5.03	5.45
European Countries and Regions	%	**1.59**	1.91	1.83	1.26
North American Countries and Regions	%	**0.14**	0.16	0.05	0.03
South American Countries and Regions	%	**0.04**	0.00	0.00	0.00
Oceania Countries and Regions	%	**0.00**	0.00	0.00	0.00

84 Total employee workforce includes full-time employees of Xiaomi Group, as well as part-time employees and interns who have a direct employment relationship with Xiaomi.

Employee Turnover

	Unit	2023	2022	2021	2020
Employee Turnover[85]	%	**11.98**	13.96	12.82	12.36
By Gender					
Male	%	**11.20**	13.32	12.07	11.97
Female	%	**13.71**	15.27	14.30	13.11
By Age Group					
Under 30	%	**16.10**	17.09	15.11	13.33
30–50	%	**9.57**	12.05	11.06	11.21
Above 50	%	**19.91**	3.21	9.40	39.83
By Geographic Region					
Chinese mainland	%	**10.44**	12.98	12.81	12.27
Regions beyond the Chinese mainland	%	**19.42**[86]	25.80	12.92	13.51

Work Injuries

Year	Unit	2023	2022	2021	2020
No. of Work-Related Fatality	Person	**0**	0	0	1
Work-Related Fatality Rate[87]	%	**0.00%**	0.00%	0.00%	0.0045%
Working Days Lost Due to Work-Related Injury[88]	Days	**1,190**	816	500	469

85 Turnover rate = the number of full-time employees who left the Company during the reporting period / the total number of full-time employees at year-end × 100%.

86 The statistical scope of this year's turnover of employees from regions beyond the Chinese mainland does not include India.

87 Work-related fatality rate = total number of work-related fatalities / total number of employees × 100%.

88 The data is derived from work-related injuries and fatalities recorded by Xiaomi's human resources team and verified by local authorities. In China, work-related injuries and fatalities shall be reported by the human resources team and recognized by the Bureau of Human Resources and Social Security.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

Training and Development

	Unit	2023	2022	2021
Training Rate				
Overall Training Rate	%	**98.13**	97.67	97.42
By Gender				
Male	%	**98.20**	97.05	97.29
Female	%	**98.00**	98.96	97.68
By Cohort Level				
Senior	%	**98.10**	91.01	87.84
Mid-Level	%	**98.25**	95.91	96.82
Junior	%	**98.00**	99.01	97.91
Average Number of Training Hours				
Overall Average Number of Training Hours	Hour	**30.17**	35.57	25.76
By Gender				
Male	Hour	**30.68**	36.95	25.94
Female	Hour	**29.10**	32.72	25.39
By Cohort Level				
Senior	Hour	**22.99**	19.30	15.31
Mid-Level	Hour	**35.27**	25.91	18.85
Junior	Hour	**30.48**	42.57	29.94

General Training Courses for New Employees

	Unit	2023	2022	2021
Starry Program				
Number of Participants	Person	1,125	3,839	3,571
Courses	Course	446	438	305
Total Course Hours	Hour	58,251	236,671	359,802
Integration Program[89]				
Number of Participants	Person	7,350	4,243	—
Courses	Course	13	12	—
Total Course Hours	Hour	98,830	39,712	—
Xiaomi Internship				
Number of Participants	Person	1,302	2,000	339
Courses	Course	9	9	8
Total Course Hours	Hour	15,624	26,000	3,729

Talent Development Program for Management

Name of project	2023 Course Participant Pool (Individuals)	2022 Course Participant Pool (Individuals)	2021 Course Participant Pool (Individuals)
Spark Program	1,186	1,250	1,070
Ignite Program[90]	395	105	84

Percentage of Products Recalled due to Safety and Health Reasons

Year	2023	2022	2021
Percentage of sold or shipped products that have to be recalled due to safety and health reasons	0.00%	0.00%	0.00%

89 The Morning Star Program was not available in 2023.
90 The original Torch Program was merged with the Ignite Program.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

Number of Complaints for Products and Services

Year	2023	2022	2021
Number of Complaints with Identified Responsibility in the Globe	**71,682**	76,874	88,336
Resolution Rate of Complaints with Identified Responsibility	**99.95%**	99.92%	99.94%
Resolution Rate of Complaints with Identified Responsibility within 72 Hours	**89.93%**	89.48%	89.04%

Certification and Coverage Scope

	2023 (Scope)
ISO 37001	Xiaomi Group
ISO 27001	Xiaomi Group
ISO 14001	R&D, manufacturing outsourcing management, and sales of smartphones, tablets, smartwatches, earphones, smart TVs, and speakers. R&D, manufacturing outsourcing management, and sales of smart home products and smart bracelets. R&D of smart home products (routers, robot vacuums, smart speakers, and power accessories). Manufacturing outsourcing management, and sales of notebooks.
ISO 45001	R&D, manufacturing outsourcing management, and sales of smartphones, tablets, smartwatches, earphones, smart TVs, and speakers. R&D, manufacturing outsourcing management, and sales of smart home products and smart bracelets. R&D of smart home products (routers, robot vacuums, smart speakers, and power accessories). Manufacturing outsourcing management, and sales of notebooks.
ISO 50001	Energy management activities involved in R&D, software development, manufacturing outsourcing management, and warehousing of smartphones and IoT and lifestyle products.

Classification of The Supply Chain By Region

Suppliers Related to the Manufacturing of Smartphones and IoT and Lifestyle Products	2023	2022
Region		
Chinese mainland	**981**	989
Regions beyond the Chinese mainland	**131**	36

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Xiaomi Corporation
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Xiaomi Corporation (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 199 to 337, comprise:

- The consolidated balance sheet as of December 31, 2023;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITOR'S REPORT

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss" Refer to Note 3.3 and Note 20 to the consolidated financial statements. The Group measures ordinary share investments and preferred share investments in unlisted companies other than those accounted for using equity method at fair value through profits or losses (collectively the "**Unlisted Securities**"). The total amount of Unlisted Securities as of December 31, 2023 was RMB38,347,349,000, accounting for 12% of the Group's total assets.	We understood the key controls over the capturing, measurement and recording of the Unlisted Securities and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors of related accounting estimate. For the classification and initial recognition of the Unlisted Securities, we have selected samples to perform the following procedures: (1) We checked relevant legal documents such as shareholder agreements, share purchase agreements and articles of association of the investees to understand the commercial rationale for these Unlisted Securities investments; (2) We evaluated management's analysis on contract terms and assessed the reasonableness of management's accounting treatments.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification, initial recognition and subsequent measurement of the Unlisted Securities require management to analyze certain complex contract terms, make corresponding judgments on the Group's business models of managing them, as well as estimate their cashflows. The Group identified its various rights and evaluated the financial impacts based on key terms from relevant legal documents. Management engaged an external valuer to assist determining the fair value of these Unlisted Securities when necessary. The fair value determination of such Unlisted Securities required management to make judgments and estimates, including the appropriateness of using various unobservable inputs. We focused on this area due to the significance of the balances of these investments and their related fair value gain or loss for the year, as well as management judgments, assumptions and estimations involved in the initial recognition and subsequent fair value measurement of the Unlisted Securities which are subject to high degree of estimation uncertainty.	For the subsequent measurement of fair value of the Unlisted Securities, we have selected samples to perform the following procedures: (1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group; (2) We assessed the appropriateness of the valuation model (which was "**market approach**"), interviewed management and understood the underlying assumptions and inputs used in fair value determination, and assessed the reasonableness of assumptions and inputs used, including but not limited to comparable companies and multipliers used, expected volatility and discounted for lack of marketability; (3) We tested the accuracy of the fair values calculation of Unlisted Securities. We found the judgments, assumptions and estimations made by management in relation to the initial recognition and fair value determination of the Unlisted Securities to be supportable based on the available evidence.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Ming Yan Brian.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 19, 2024

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2023

(Expressed in Renminbi ("**RMB**"))

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
Revenue	6	**270,970,141**	280,044,016
Cost of sales	9	**(213,493,902)**	(232,466,826)
Gross profit		**57,476,239**	47,577,190
Research and development expenses	9	**(19,097,699)**	(16,028,132)
Selling and marketing expenses	9	**(19,226,542)**	(21,323,323)
Administrative expenses	9	**(5,126,798)**	(5,113,877)
Fair value changes on financial instruments measured at fair value through profit or loss		**3,501,053**	(1,662,010)
Share of net profits/(losses) of investments accounted for using the equity method	12(b)	**45,615**	(400,100)
Other income	7	**740,091**	1,135,560
Other gains/(losses), net	8	**1,696,711**	(1,368,810)
Operating profit		**20,008,670**	2,816,498
Finance income	11	**3,558,347**	1,663,941
Finance costs	11	**(1,555,970)**	(546,483)
Profit before income tax		**22,011,047**	3,933,956
Income tax expenses	13	**(4,536,851)**	(1,431,388)
Profit for the year		**17,474,196**	2,502,568
Attributable to:			
— Owners of the Company		**17,475,173**	2,474,030
— Non-controlling interests		**(977)**	28,538
		17,474,196	2,502,568
Earnings per share (expressed in RMB per share):	14		
Basic		**0.70**	0.10
Diluted		**0.69**	0.10

The notes on pages 208 to 337 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2023

(Expressed in RMB)

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
Profit for the year		**17,474,196**	2,502,568
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of investments accounted for using the equity method	12(b)	9,326	57,211
Transfer of share of other comprehensive (income)/loss to profit or loss upon disposal and deemed disposal of investments accounted for using equity method		(2,167)	93,311
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		(26,711)	(22,754)
Currency translation differences		321,098	(103,529)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		734,319	3,721,116
Other comprehensive income for the year, net of tax		**1,035,865**	3,745,355
Total comprehensive income for the year		**18,510,061**	6,247,923
Attributable to:			
— Owners of the Company		18,507,548	6,201,669
— Non-controlling interests		2,513	46,254
		18,510,061	6,247,923

The notes on pages 208 to 337 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2023

(Expressed in RMB)

	Note	As of December 31, 2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	13,720,825	9,138,221
Intangible assets	16	8,628,739	4,629,676
Investments accounted for using the equity method	12(b)	6,922,241	7,932,192
Long-term investments measured at fair value through profit or loss	20	60,199,798	55,979,974
Deferred income tax assets	35	2,160,750	2,278,175
Long-term bank deposits	25(c)	18,293,650	16,788,346
Long-term investments measured at amortized cost	20	364,476	405,371
Other non-current assets	18	14,904,260	15,940,461
		125,194,739	113,092,416
Current assets			
Inventories	24	44,422,837	50,437,891
Trade and notes receivables	22	12,150,928	11,795,074
Loan receivables	21	9,772,589	7,829,563
Prepayments and other receivables	23	20,078,875	18,578,491
Bills receivables measured at fair value through other comprehensive income		125,661	40,003
Short-term investments measured at fair value through other comprehensive income	20	582,131	449,109
Short-term investments measured at amortized cost	20	502,816	—
Short-term investments measured at fair value through profit or loss	20	20,193,662	9,845,910
Short-term bank deposits	25(c)	52,797,857	29,874,707
Restricted cash	25(b)	4,794,031	3,956,786
Cash and cash equivalents	25(a)	33,631,313	27,607,261
		199,052,700	160,414,795
Total assets		324,247,439	273,507,211
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	26	407	406
Reserves		163,995,082	143,658,052
		163,995,489	143,658,458
Non-controlling interests		266,279	264,602
Total equity		164,261,768	143,923,060

CONSOLIDATED BALANCE SHEET

As of December 31, 2023

(Expressed in RMB)

	Note	As of December 31, 2023 RMB'000	2022 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	34	21,673,969	21,493,261
Deferred income tax liabilities	35	1,494,287	983,256
Warranty provision		1,215,546	945,270
Other non-current liabilities	30	20,014,273	16,534,831
		44,398,075	39,956,618
Current liabilities			
Trade payables	31	62,098,500	53,093,543
Other payables and accruals	32	25,614,650	18,440,716
Advance from customers	33	13,614,756	9,587,959
Borrowings	34	6,183,376	2,150,741
Income tax liabilities		1,838,222	1,384,133
Warranty provision		6,238,092	4,970,441
		115,587,596	89,627,533
Total liabilities		159,985,671	129,584,151
Total equity and liabilities		324,247,439	273,507,211

The notes on pages 208 to 337 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 199 to 337 were approved by the Board of Directors on March 19, 2024 and were signed on its behalf:

Lei Jun **Lin Bin**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(Expressed in RMB)

	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company							
Balance at January 1, 2023		406	(190,795)	59,483,288	12,951,008	71,414,551	143,658,458	264,602	143,923,060
Comprehensive income									
Profit for the year		–	–	–	–	17,475,173	17,475,173	(977)	17,474,196
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive income of investments accounted for using the equity method	12(b)	–	–	–	9,326	–	9,326	–	9,326
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of investments accounted for using equity method		–	–	–	(2,167)	–	(2,167)	–	(2,167)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(26,711)	–	(26,711)	–	(26,711)
Currency translation differences	27	–	–	–	317,608	–	317,608	3,490	321,098
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	27	–	–	–	734,319	–	734,319	–	734,319
Total comprehensive income		–	–	–	1,032,375	17,475,173	18,507,548	2,513	18,510,061

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Transactions with owners in their capacity as owners									
Purchase of own shares	26	—	(1,485,385)	—	—	—	(1,485,385)	—	(1,485,385)
Cancellation of shares	26	(2)	1,216,644	(1,216,642)	—	—	—	—	—
Release of ordinary shares from Share Scheme Trusts	26	1	21,245	1,788,344	(1,805,864)	—	3,726	—	3,726
Share of other reserves of investments accounted for using the equity method	12(b)	—	—	—	38,532	—	38,532	—	38,532
Employees share-based compensation scheme:									
— value of employee services	29	—	—	—	3,280,371	—	3,280,371	(836)	3,279,535
— exercise of share options and restricted shares units ("**RSUs**")	26,29	2	—	658,545	(580,578)	—	77,969	—	77,969
Share consideration for acquisition of Zimi International Incorporation ("**Zimi**") completed in 2021	26	—	—	64,752	(64,752)	—	—	—	—
Transfer of share of other reserves to profit or loss upon disposal and deemed disposal of investments accounted for using the equity method		—	—	—	(85,730)	—	(85,730)	—	(85,730)
Appropriation to statutory reserves	27	—	—	—	704,678	(704,678)	—	—	—
Appropriation to general reserves	27	—	—	—	15,661	(15,661)	—	—	—
Others		—	—	—	(2,083)	2,083	—	—	—
Total transactions with owners in their capacity as owners		1	(247,496)	1,294,999	1,500,235	(718,256)	1,829,483	(836)	1,828,647
Balance at December 31, 2023		407	(438,291)	60,778,287	15,483,618	88,171,468	163,995,489	266,279	164,261,768

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2022		407	(343,730)	59,717,626	8,536,648	69,301,955	137,212,906	219,590	137,432,496
Comprehensive income									
Profit for the year		–	–	–	–	2,474,030	2,474,030	28,538	2,502,568
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive income of investments accounted for using the equity method	12(b)	–	–	–	57,211	–	57,211	–	57,211
Transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of investments accounted for using equity method		–	–	–	93,311	–	93,311	–	93,311
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(22,754)	–	(22,754)	–	(22,754)
Currency translation differences	27	–	–	–	(121,245)	–	(121,245)	17,716	(103,529)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	27	–	–	–	3,721,116	–	3,721,116	–	3,721,116
Total comprehensive income		–	–	–	3,727,639	2,474,030	6,201,669	46,254	6,247,923
Transactions with owners in their capacity as owners									
Purchase of own shares	26	–	(2,386,143)	–	–	–	(2,386,143)	–	(2,386,143)
Cancellation of shares	26	(4)	2,539,078	(2,539,074)	–	–	–	–	–
Release of ordinary shares from Share Scheme Trusts	26	–	–	1,315,868	(1,307,612)	–	8,256	–	8,256
Share of other reserves of investments accounted for using the equity method	12(b)	–	–	–	122,326	–	122,326	–	122,326
Employees share-based compensation scheme:									
– value of employee services	29	–	–	–	2,821,775	–	2,821,775	125	2,821,900
– exercise of share options and RSUs	26,29	3	–	890,469	(793,005)	–	97,467	–	97,467
Share consideration for acquisition of Zimi completed in 2021	26	–	–	98,399	(98,399)	–	–	–	–
Transfer of share of other reserves to profit or loss upon disposal and deemed disposal of investments accounted for using equity method		–	–	–	(419,795)	–	(419,795)	–	(419,795)
Appropriation to statutory reserves	27	–	–	–	384,506	(384,506)	–	–	–
Appropriation to general reserves	27	–	–	–	(1,898)	1,898	–	–	–
Others		–	–	–	(21,177)	21,174	(3)	(1,367)	(1,370)
Total transactions with owners in their capacity as owners		(1)	152,935	(234,338)	686,721	(361,434)	243,883	(1,242)	242,641
Balance at December 31, 2022		406	(190,795)	59,483,288	12,951,008	71,414,551	143,658,458	264,602	143,923,060

The notes on pages 208 to 337 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

(Expressed in RMB)

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	36(a)	44,312,243	(969,453)
Income tax paid		(3,011,748)	(3,420,277)
Net cash generated from/(used in) operating activities		41,300,495	(4,389,730)
Cash flows from investing activities			
Capital expenditures		(6,268,900)	(5,799,570)
Proceeds from disposal of property, plant and equipment		72,833	17,334
Placement of short-term bank deposits		(96,224,706)	(58,365,222)
Maturity of short-term bank deposits		83,697,015	68,591,095
Placement of long-term bank deposits		(13,148,838)	(9,874,904)
Proceeds from disposal of long-term bank deposits		2,115,150	1,921,513
Purchase of short-term investments measured at fair value through profit or loss		(53,357,701)	(72,822,699)
Proceeds from maturity of short-term investments measured at fair value through profit or loss		42,999,761	92,620,278
Purchase of short-term investments measured at fair value through other comprehensive income		(1,217,115)	(776,338)
Proceeds from maturity of short-term investments measured at fair value through other comprehensive income		1,092,656	1,073,150
Purchase of long-term investments measured at amortized cost		(9,376)	(40,920)
Purchase of short-term investments measured at amortized cost		(3,300,000)	(630,996)
Proceeds from maturity of investments measured at amortized cost		2,800,000	2,265,269
Interest income received		3,258,117	1,301,900
Investment income received		272,546	425,676
Purchase of long-term investments measured at fair value through profit or loss		(4,199,240)	(7,687,992)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		5,246,748	2,821,615
Purchase of investments accounted for using the equity method		(103,807)	(28,030)
Proceeds from disposal of investments accounted for using the equity method		825,070	361,159
Acquisition of subsidiaries, net of cash acquired		(18,144)	(25,106)
Disposal of a subsidiary		101,294	—
Dividends received		197,583	201,561
Net cash (used in)/ generated from investing activities		(35,169,054)	15,548,773

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

(Expressed in RMB)

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		8,866,088	19,857,851
Repayment of borrowings		(4,022,423)	(22,649,189)
Finance expenses paid		(758,137)	(1,020,229)
Contribution from fund investors		1,417,086	806,000
Distribution to fund investors		(2,884,215)	(255,576)
Net proceeds from exercise of share options		69,919	83,925
Payments for shares repurchase		(1,356,825)	(2,386,143)
Payments for buyback of employee fund		(31,431)	(3,256)
Repayment of payables under letter of credit		—	(1,006,397)
Proceeds from financial assets sold under repurchase agreements		959,650	—
Payments for buyback of financial assets sold under repurchase agreements		(173,804)	—
Payment of lease liabilities		(1,197,692)	(1,281,785)
Payment of deferred consideration for acquisition of intangible assets		(1,393,188)	—
Net cash used in financing activities		(504,972)	(7,854,799)
Net increase in cash and cash equivalents		5,626,469	3,304,244
Cash and cash equivalents at the beginning of the year	25(a)	27,607,261	23,511,579
Effects of exchange rate changes on cash and cash equivalents		397,583	791,438
Cash and cash equivalents at the end of the year	25(a)	33,631,313	27,607,261

The notes on pages 208 to 337 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "**Company**"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "**Group**") are principally engaged in development and sales of smartphones, internet of things ("**IoT**") and lifestyle products, provision of internet services and investments holding in the People's Republic of China ("**the PRC**") and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of these consolidated financial statements.

The regulations in mainland China restrict foreign ownership of companies that provide internet services, e-commerce and value-added telecommunications services, etc., which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain controlled structured entities through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd. ("**Xiaomi Communications**", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from its respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information (continued)

- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 12(a).

2 Summary of accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRS Accounting Standards issued by the International Accounting Standards Board ("**IFRS Accounting Standards**") 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 and liabilities which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(i) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the Group's financial year beginning on January 1, 2023 and are applicable for the Group:

- IFRS 17 Insurance contracts
- Disclosure of accounting policies — Amendments to IAS 1 and IFRS practice statement 2
- Definition of accounting estimates — Amendments to IAS 8
- Deferred tax related to assets and liabilities arising from a single transaction — Amendments to IAS 12
- International tax reform — Pillar Two Model Rules — Amendments to IAS 12

Other than the adoption of Amendments to IAS 12 as below disclosed, the adoption of the other new and amended standards has had no significant impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(a) Basis of preparation (continued)

(i) New and amended standards adopted by the Group (continued)

Deferred tax related to assets and liabilities arising from a single transaction — Amendments to IAS 12

The Group applied the Amendment to IAS 12 — *Deferred tax related to assets and liabilities arising from a single transaction* from its effective date on January 1, 2023. In accordance with the retrospectively application transitional provisions, the Group recognized deferred income tax for all temporary differences related to leases that gave rise to equal amounts of taxable and deductible temporary differences on initial recognition date at the beginning of the earliest comparative period presented. As a result, with the beginning of the earliest period presented being January 1, 2022, an adjustment of RMB555,070,000 was recognized to the gross amounts of deferred tax assets and deferred tax liabilities simultaneously, and the resultant deferred tax assets and deferred tax liabilities met the set-off provisions and presented on a net basis on the consolidated balance sheet.

Since the Group had considered the lease as a single transaction in which the assets and liabilities are integrally linked and recognized deferred income tax on a net basis before the adoption of this amendments, there were no impact on opening retained earnings upon the adoption of the this amendments.

Amendments to IAS 12 International Tax Reform — Pillar Two Model Rules

Amendments to IAS 12 "International Tax Reform — Pillar Two Model Rules" have been issued on May 23, 2023 and are effective for annual reporting periods beginning on or after January 1, 2023. The Group has adopted the amendments and applied the temporary exception to recognising and disclosing information about deferred income tax assets and liabilities arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organisation for Economic Co-operation and Development.

The Group would continually evaluate the impact of the Pillar Two income tax exposure on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(a) Basis of preparation (continued)

(ii) 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, 2023 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.

(b) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Subsidiaries controlled through Contractual Arrangements

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group, and their assets, liabilities and results are consolidated in the Group's consolidated financial statements.

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(b) Subsidiaries (continued)

(i) Consolidation (continued)

(ii) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(b) Subsidiaries (continued)

(i) Consolidation (continued)

(ii) Business combination (continued)

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("OCI") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRS Accounting Standards.

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(c) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(i) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28 "Investments in Associates and Joint Ventures". Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is treated as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other gains/(losses), net" in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(c) Associates (continued)

(i) Investments in associates in the form of ordinary shares (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

(ii) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.1 (g)).

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(d) Property, plant and equipment (continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
— Electronic equipment	3–10 years
— Office equipment	2–5 years
— Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property, plant and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.1 (f)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains/(losses), net" in the consolidated income statement.

(e) Intangible assets

(i) Goodwill

Goodwill arises from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(e) Intangible assets (continued)

(i) Goodwill (continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(ii) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

(iii) Trademarks, patents and domain name

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 20 years.

(iv) Other intangible assets

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded within operating expenses in the consolidated income statement.

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(e) Intangible assets (continued)

(v) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

(f) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use ("VIU"). For the purposes of assessing impairment, assets are grouped at the lowest levels of CGUs. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(g) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 19 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(g) Financial assets (continued)

(ii) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses), net.

- Fair value through profit or loss ("**FVPL**"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated income statement within other gains/(losses), net in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(g) Financial assets (continued)

(ii) Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in the consolidated income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iii) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other financial assets, mainly including loan receivables, notes receivables, other receivables, term bank deposits, long-term investments measured at amortized cost and short-term investments measured at amortized cost or fair value through other comprehensive income, is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(g) Financial assets (continued)

(iv) Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(i) Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less credit loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss allowance is recognized in profit or loss. See Note 2.1 (g)(iii) for a description of the Group's impairment policy for loan receivables.

(j) Cash and cash equivalents and restricted cash

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash that is restricted from withdrawal, from use or from being pledged as security is reported separately on the face of the consolidated balance sheets, and is not included in the total cash and cash equivalents in the consolidated statements of cash flows.

(k) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(k) Borrowings (continued)

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

(l) Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(l) Current and deferred income tax (continued)

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal amounts of taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(l) Current and deferred income tax (continued)

(iii) Offsetting

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and where the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Share-based payment

(i) Equity-settled share-based payment transactions

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (RSUs and options) of the Group. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

In terms of the RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(m) Share-based payment (continued)

(i) Equity-settled share-based payment transactions (continued)

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(ii) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured at fair value of the liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

(n) Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. The Group recognizes revenue when the specific criteria have been met for each of the Group's activities, as described below.

(i) Sales of products

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has been transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(n) Revenue recognition (continued)

(ii) Internet services

Internet services mainly comprise advertising services and internet value-added services.

(i) Advertising services

Advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the customers' apps are downloaded by users.

(ii) Internet value-added services

The Group recognizes the internet value-added services revenue (including online game and fintech business) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

For online game, the Group usually amostised the related revenue over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Fintech business

The Group's fintech revenues are primarily consist of financial interest income and intermediary services income.

The Group generates financial interest income from provision of loan services through its own online internet finance platform and factoring business. Revenue arising from factoring business is recognized in the consolidated statement of comprehensive income based on the duration and the effective interest rate. Revenue includes the amortization of any differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(n) Revenue recognition (continued)

(ii) Internet services (continued)

(ii) Internet value-added services (continued)

Fintech business (continued)

The Group also provides intermediary services to the borrowers and third party funding parties (as the lenders). The Group are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans between lenders and borrowers. The Group only acts as an agent to facilitate such loans between the borrowers and the lenders. The Group considers the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total consideration to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal if the Group obtains control through any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.1 Summary of material accounting policies (continued)

(n) Revenue recognition (continued)

(ii) Internet services (continued)

(ii) Internet value-added services (continued)

Fintech business (continued)

the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(o) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies

(a) Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollar ("**US$**"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange gains and losses are presented in the consolidated income statement within "Other gains/(losses), net".

Translation differences on non-monetary financial assets and liabilities are recognized in profit or loss as part of the fair value changes.

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(c) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(d) Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognized so as to write off the cost of investment properties to their residual values over their estimated useful lives of 38 to 40 years by using the straight-line method.

(e) Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9; and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

(f) Receivables

Trade and notes receivables are amounts due from customers for goods sold or services performed in the ordinary course of business.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(f) Receivables (continued)

Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business. They are generally due for settlement within one year and therefore all classified as current assets.

The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 2.1 (g)(iii) for a description of the Group's impairment policies for trade and other receivables.

(g) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(h) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(i) Employee benefits

(i) Pension obligations

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(i) Employee benefits (continued)

(i) Pension obligations (continued)

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. The contributions borne by the Group under the government mandated multi-employer defined contribution scheme are principally determined based on certain percentages of the salaries of employees, subject to certain ceilings. Contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

(ii) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(iii) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(j) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(j) Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(i) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to six years. The Group revaluates its estimates on an annual basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

(k) Interest income

Interest income on financial assets at amortized cost and financial assets at fair value through other comprehensive income calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(l) Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property, plant and equipment, and other non-current assets are included in the liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(m) Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as of the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(m) Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of accounting policies (continued)

2.2 Summary of other accounting policies (continued)

(m) Leases (continued)

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(o) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(p) Dividend income

Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries operate in mainland China and overseas, and they are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners, and recognized assets and liabilities in the Group's overseas subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners in mainland China.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2023 would have been approximately RMB148,572,000 (2022: RMB74,470,000) higher/lower, as a result of net foreign exchange gains on translation of net monetary liabilities denominated in US$.

For the Company and the Group's subsidiaries whose functional currency is US$, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2023 would have been approximately RMB63,629,000 higher/lower (2022: RMB83,657,000 higher/lower), as a result of net foreign exchange gains (2022: net foreign exchange gains) on translation of net monetary assets (2022: net monetary assets) denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 34), long-term investments measured at amortized cost, long-term bank deposits, short-term investments measured at fair value through other comprehensive income, short-term investments measured at amortized cost, loan receivables, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2023 would have been RMB168,157,000 (2022: RMB138,036,000) higher/lower.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2023 would have been approximately RMB23,652,000 (2022: RMB13,178,000) lower/higher. This analysis does not include the effect of interest capitalized.

The fair value interest rate risk arises from financial assets and liabilities carried at fixed rates is not significant for the Group.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk primarily in respect of its investments in equity instruments that classified in the balance sheet as of fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its long-term investments measured at amortized cost, long-term bank deposits, loan receivables, trade and notes receivables, other receivables, short-term investments measured at amortized cost, short-term investments measured at fair value through other comprehensive income, short-term investments measured at fair value through profit or loss, bills receivables measured at fair value through other comprehensive income, short-term bank deposits, restricted cash, cash and cash equivalents, and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments measured at fair value through profit or loss and bills receivables measured at fair value through other comprehensive income, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to those financial institutions.

For short-term investments measured at fair value through other comprehensive income, long-term investments measured at amortized cost and short-term investments measured at amortized cost, mainly including debt securities whose contractual cash flows are solely principal and interest, management makes periodic collective assessments as well as individual assessment on the recoverability based on historical settlement records and past experiences. In view of the sound rating of bond issuers, management believes that the credit risk inherent in those investments due from them is not significant.

To manage risk arising from trade and notes receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding other receivable balances due from them is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk exposure from financial guarantee contracts is RMB28,391,000 as of December 31, 2023 (2022: RMB435,846,000), the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently. The Group has recognized loss allowance for such losses at each of the reporting date.

To manage risk arising from loan receivables, the Group performs standardized credit management procedures:

- For pre-approval investigation, the Group uses its platform and systems using big data technology to optimize the review process, including credit analysis, assessment of collectability of borrowers, possibility of misconduct and fraudulent activities.

- In terms of credit examining management, the Group has established specific policies and procedures to assess loans offering.

- For subsequent monitoring, the Group has implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors.

- In post-loan supervision, the Group has established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("**PD**"), Exposure at Default ("**EAD**") and Loss Given Default ("**LGD**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below:

- The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(3) Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the business climate index as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(b2) Credit loss allowance

The credit loss allowance recognized in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the year, and the subsequent "step up" (or "step down") between 12-month and lifetime ECL;

- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the year;

- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explains the gross carrying amount and credit loss allowance of loan receivables:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
As of December 31, 2023				
Gross carrying amount	9,832,099	6,237	806,808	10,645,144
Loss allowance	(62,755)	(4,075)	(805,725)	(872,555)
	9,769,344	2,162	1,083	9,772,589
As of December 31, 2022				
Gross carrying amount	7,863,286	21,544	740,850	8,625,680
Loss allowance	(42,429)	(16,950)	(736,738)	(796,117)
	7,820,857	4,594	4,112	7,829,563

Note:

During the year ended 31 December 2023, majority of new loans receivables were originated from the factoring loan business; and the transfer between stages were immaterial during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2023	42,429	16,950	736,738	796,117
Transfer between stages	(902)	(21,006)	21,908	—
Provision of expected credit losses	21,051	8,119	110,918	140,088
Write-offs	—	—	(63,904)	(63,904)
Currency translation differences	177	12	65	254
Loss allowance as of December 31, 2023	62,755	4,075	805,725	872,555
Loss allowance as of January 1, 2022	124,182	89,550	778,692	992,424
Transfer between stages	(4,268)	(40,890)	45,158	—
Provision of expected credit losses	(73,235)	(31,425)	68,526	(36,134)
Write-offs	—	—	(154,071)	(154,071)
Currency translation differences	(4,250)	(285)	(1,567)	(6,102)
Loss allowance as of December 31, 2022	42,429	16,950	736,738	796,117

(b3) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write off loan receivables that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

(b4) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements. There are loan covenants terms for certain borrowings. As of December 31, 2023, there is no non-compliance with such loan covenants (2022: Nil).

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities into relevant maturity grouping based on the remaining year at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 year and 2 years RMB'000	Between 2 years and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2023					
Borrowings	11,783,279	3,316,353	2,454,025	15,826,470	33,380,127
Trade payables	62,098,500	—	—	—	62,098,500
Other payables	17,362,253	—	—	—	17,362,253
Lease liabilities	804,641	425,136	708,479	268,386	2,206,642
Liabilities to fund investors	—	—	11,574,737	2,228,308	13,803,045
Off-balance sheet guarantee liabilities	5,772	—	—	—	5,772
At December 31, 2022					
Borrowings	2,707,100	537,088	10,341,827	16,107,081	29,693,096
Trade payables	53,093,543	—	—	—	53,093,543
Other payables	12,901,886	—	—	—	12,901,886
Lease liabilities	1,072,383	508,876	608,323	414,582	2,604,164
Liabilities to fund investors	—	—	14,053,228	806,000	14,859,228
Off-balance sheet guarantee liabilities	322,786	—	—	—	322,786

3 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital and share premium) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has strong cash positions, continuously generating operating profits with a low level of indebtedness.

3.3 Fair value estimation

The table below analyzes the Group's main financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value.

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2023:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	5,992,430	—	54,207,368	60,199,798
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	20,193,662	20,193,662
Short-term investments measured at fair value through other comprehensive income (Note 20)	582,131	—	—	582,131
Bills receivables measured at fair value through other comprehensive income	—	—	125,661	125,661
	6,574,561	—	74,526,691	81,101,252
Liabilities				
Liabilities to fund investors (Note 30(a))	—	—	2,228,308	2,228,308

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2022:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	4,547,386	—	51,432,588	55,979,974
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	9,845,910	9,845,910
Short-term investments measured at fair value through other comprehensive income (Note 20)	449,109	—	—	449,109
Bills receivables measured at fair value through other comprehensive income	—	—	40,003	40,003
	4,996,495	—	61,318,501	66,314,996
Liabilities				
Liabilities to fund investors (Note 30(a))	—	—	806,000	806,000

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. The amounts of net fair value gain for level 1 investments for the year ended December 31, 2023 is RMB794,785,000 (2022: net fair value losses RMB773,674,000).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;

- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and

- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets mainly include long-term investments measured at fair value through profit or loss and short-term investments measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2023 and 2022:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	51,432,588	45,817,637
Additions	5,306,388	7,636,143
Disposals	(2,458,853)	(2,091,056)
Changes in fair value	2,427,596	(1,277,618)
Transfer to level 1 financial instruments	(2,872,137)	(547,574)
Currency translation differences	371,786	1,895,056
At the end of the year	54,207,368	51,432,588
Net unrealized gains/(losses) for the year	1,631,788	(1,181,027)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2023 and 2022:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	**9,845,910**	29,311,848
Disposal of a subsidiary	**—**	(60,000)
Additions	**53,357,701**	72,822,699
Disposals	**(43,272,307)**	(93,045,954)
Changes in fair value	**292,701**	389,282
Currency translation differences	**(30,343)**	428,035
At the end of the year	**20,193,662**	9,845,910
Net unrealized gains for the year	**71,186**	51,031

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 20), and short-term investments measured at fair value through profit or loss (Note 20). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows or market approach, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of December 31, 2023	2022		As of December 31, 2023	2022	
	RMB'000	RMB'000				
Long-term investments measured at fair value through profit or loss (Note 20) — Ordinary shares investments and preferred shares investments	43,743,711	42,302,277	Expected volatility	15%–103%	26%–99%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	4%–30%	2%–30%	The higher the DLOM, the lower the fair value
			Risk-free rate	1.9%–7%	0.2%–5%	
Short-term investments measured at fair value through profit or loss (Note 20)	20,193,662	9,845,910	Expected rate of return	0.25%–3.25%	1.25%–3.50%	The higher the expected rate of return, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

If the fair values of the ordinary shares and preferred shares held by the Group, which was included in long-term investments measured at fair value through profit or loss had been 5% higher/lower, the profit before income tax for the year ended December 31, 2023 would have been approximately RMB2,486,807,000 (2022: RMB2,342,483,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2023, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering or lifting of sale restriction of the investee companies.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, short-term investments measured at amortized cost, long-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowings, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

(b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health, collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measures, changes in macroeconomic indicators etc. Further details are included in Note 3.1 to the consolidated financial statements.

(c) Taxation

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be probable due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future or the reversal of temporarily taxable difference.

The Group is also subject to other taxation in different jurisdictions. Significant judgment is required in determining the worldwide provision of other taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

4 Critical accounting estimates and judgments (continued)

(d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. The actual net realizable value maybe higher or lower than previously estimated. This requires significant judgment and estimation.

(e) Recoverability of non-financial assets and investments accounted for using the equity method

The Group tests annually whether goodwill has suffered any impairment. Other non-financial assets, mainly including property, plant and equipment, intangible assets, investment properties, right-of-use assets as well as investments accounted for using the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of non-financial assets is the greater of its fair value less costs of disposal and value in use. In determining fair values, various applicable valuation techniques (e.g. discounted cash flows or market approach) are used, with significant unobservable inputs including expected volatility, discount for lack of marketability and risk free rates, etc. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue, operating costs and discount rates.

Judgment is required select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statements.

(f) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and estimated cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

4 Critical accounting estimates and judgments (continued)

(g) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

5 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer of the Company.

Currently, substantially all of the Group's revenue were generated from sales of smartphone and the ecosystem products or services, these revenue are regularly reviewed and evaluated by the CODM, thus 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 that reviewed by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on financial instruments measured at fair value through profit or loss, share of net profits/(losses) of investments accounted for using the equity method, other income, other gains/(losses), net, finance income, finance costs and income tax expenses are not allocated to individual operating segments as they were centrally monitored by the Group.

5 Segment information (continued)

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment:

- Revenues from smartphones segment are derived from the sale of smartphones.

- Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products.

- Revenues from internet services segment are derived from advertising services and internet value-added services including online game and fintech business.

- Others segment primarily comprises revenue from the Group's hardware repair services for products, installation services for certain IoT products, sale of materials and others.

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components, (ii) assembly cost charged by the Group's outsourcing partners, (iii) royalty fees for certain technologies embedded in the products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) bandwidth, server custody and cloud service related costs, and (ii) content fees to game developers. Cost of sales for others segment primarily consists of hardware repair costs, installation costs, costs from sale of materials and development costs of buildings.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

There were no material inter-segment sales during the years ended December 31, 2023 and 2022. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

The segment results for the years ended December 31, 2023 and 2022 are as follows:

	Year ended December 31, 2023				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	157,461,309	80,107,740	30,107,494	3,293,598	270,970,141
Cost of sales	(134,480,722)	(67,029,144)	(7,773,544)	(4,210,492)	(213,493,902)
Gross profit/(loss)	22,980,587	13,078,596	22,333,950	(916,894)	57,476,239

	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

The reconciliation of gross profit to profit before income tax is the same as that shown in the consolidated income statement, thus no reconciliation provided here.

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(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

For the years ended December 31, 2023 and 2022, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2023		2022	
	RMB'000	%	RMB'000	%
Mainland China	149,189,720	55.1	142,258,417	50.8
Rest of the world (Note (a))	121,780,421	44.9	137,785,599	49.2
	270,970,141		280,044,016	

Note:

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

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2023 and 2022 are listed as below:

	Year ended December 31,	
	2023	2022
	%	%
Customer A	12.2	13.4

All the revenues derived from other single external customer were less than 10% of the Group's total revenues for the years ended December 31, 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

6 Revenue

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Smartphones	157,461,309	167,217,177
IoT and lifestyle products	80,107,740	79,794,877
Internet services	30,107,494	28,321,444
Others	3,293,598	4,710,518
	270,970,141	280,044,016

7 Other income

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Government grants	333,578	604,051
Dividend income	157,569	125,299
Value-added tax and other tax refunds	105,660	108,081
Additional deduction of input value-added tax	143,284	298,129
	740,091	1,135,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

8 Other gains/(losses), net

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Gains on disposal and deemed disposal of investments accounted for using the equity method (Note 12(b))	1,580,123	127,310
Foreign exchanges gains/(losses), net	124,405	(998,602)
Impairment on investments accounted for using the equity method (Note 12(b))	(7,138)	(450,948)
Others	(680)	(46,570)
	1,696,710	(1,368,810)

9 Expenses by nature

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Cost of inventories sold and royalty fees	192,822,082	208,148,924
Provision for impairment of inventories (Note 24)	3,861,753	7,794,470
Employee benefit expenses (Note 10)	18,935,182	16,607,997
Depreciation of property, plant and equipment, right-of-use assets and investment properties (Note 15, 17, 18)	2,401,979	2,310,951
Amortization of intangible assets (Note 16)	2,434,308	1,396,442
Promotion and advertising expenses	6,996,492	7,233,932
Content fees to game developers and video providers	3,245,179	3,137,676
Credit loss allowance	321,528	217,971
Consultancy and professional service fees	1,491,329	1,495,318
Cloud service, bandwidth and server custody fees	2,208,314	2,259,250
Warranty expenses	4,801,995	5,419,526
Auditor's remuneration	65,283	83,618
— Audit services	52,744	54,618
— Non-audit services	12,539	29,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Expenses by nature (continued)

During the year ended December 31, 2023, the Group incurred research and development expenses of approximately RMB19,097,699,000 (2022: RMB16,028,132,000), which mainly comprised employee benefits expenses of RMB11,845,739,000 (2022: RMB9,639,067,000). No significant development expenses had been capitalized during the year (2022: Nil).

10 Employee benefit expenses

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Wages and salaries	**11,981,862**	10,548,009
Share-based compensation expenses (Note 29)	**3,378,670**	2,497,358
Contributions to pension plans	**1,410,904**	1,315,876
Other social security costs, housing benefits and other employee benefits	**2,163,746**	2,246,754
	18,935,182	16,607,997

(i) Pensions — defined contribution plans

During the year ended December 31, 2023, no forfeited contributions were utilized by the Group to reduce its contributions for the current year (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group do not include any director of the Company for the years ended December 31, 2023 and 2022. All of these individuals have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2023 and 2022. The emoluments payable to the five highest paid individuals during the years ended December 31, 2023 and 2022 are as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Wages and salaries	10,654	17,268
Share-based compensation expenses	402,227	326,448
Contributions to pension plans	312	192
Discretionary bonuses	3,300	363
Other social security costs, housing benefits and other employee benefits	444	275
	416,937	344,546

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2023	2022
Hong Kong dollar ("**HK$**")25,500,001 to HK$26,000,000	1	—
HK$31,000,001 to HK$31,500,000	—	1
HK$40,000,001 to HK$40,500,000	1	—
HK$46,000,001 to HK$46,500,000	1	—
HK$46,500,001 to HK$47,000,000	—	1
HK$52,500,001 to HK$53,000,000	1	1
HK$72,500,001 to HK$73,000,000	—	1
HK$197,500,001 to HK$198,000,000	—	1
HK$298,000,001 to HK$298,500,000	1	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(iii) Benefits and interests of directors

The remuneration of every director is set out below:

During the year ended December 31, 2023:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive Directors						
LEI, Jun	—	—	—	—	—	—
LIN, Bin	—	—	—	—	—	—
LIU, De	—	—	—	—	—	—
Non-executive Directors						
LIU, Qin	—	—	—	—	—	—
Independent non-executive Directors						
CHEN, Dongsheng	540	—	—	—	—	540
WONG, Shun Tak (a)	991	—	—	—	—	991
TONG Wai Cheung Timothy (b)(c)	991	—	—	—	—	991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(iii) Benefits and interests of directors (continued)

During the year ended December 31, 2022:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive Directors						
LEI, Jun	–	–	–	–	–	–
LIN, Bin	–	–	–	–	–	–
LIU, De	–	–	–	–	–	–
Non-executive Directors						
LIU, Qin	–	–	–	–	–	–
Independent non-executive Directors						
CHEN, Dongsheng	516	–	–	–	–	516
WONG, Shun Tak (a)	946	–	–	–	–	946
TONG Wai Cheung Timothy (b)(c)	946	–	–	–	–	946

Notes:

(a) HK$500,000 was paid to Mr. Wong Shun Tak during the years ended December 31, 2023 and 2022 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(b) HK$500,000 was paid to Prof. Tong Wai Cheung Timothy during the years ended December 31, 2023 and 2022 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(c) Prof. Tong Wai Cheung Timothy has resigned as independent non-executive director of the Company with effect from January 8, 2024. Meanwhile, Ms. Cai Jinqing was appointed as an independent non-executive director of the Company with effect from January 8, 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(iv) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2023 and 2022 or at any time during all the years presented.

(v) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted as of December 31, 2023 and 2022 or at any time during all the years presented.

(vi) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted as of December 31, 2023 and 2022 or at any time during all the years presented.

(vii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as of December 31, 2023 and 2022 or at any time during all the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11 Finance income and costs

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Finance income:		
Interest income from bank deposits	3,558,347	1,663,941

Interest income mainly represents interest income from bank deposits, including bank balances and term deposits.

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Finance costs:		
Change in amortized cost of liabilities to fund investors (Note 30)	405,724	(583,862)
Interest expense from borrowings (Note 34), lease liabilities (Note 17) and payable for purchase of intangible assets (Note 30, 32)	1,154,965	1,132,892
Less: amount capitalized	(4,719)	(2,547)
	1,555,970	546,483

Finance costs have been capitalized on qualifying assets at average interest rates of 4.19% per annum for the year ended December 31, 2023 (2022: 4.15%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities

As of December 31, 2023 and 2022, the Company had the following major subsidiaries (including controlled structured entities):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2023	2022	As of the date of this report	
Subsidiaries Directly held:							
Xiaomi H.K. Limited	Hong Kong, limited liability company	April 7, 2010	HK$10,000	100%	100%	100%	Wholesale and retail of smartphones and ecosystem partners' products
Fast Pace Limited	British Virgin Islands, limited liability company	January 8, 2013	US$2	100%	100%	100%	Investment holding and investment activities
Best Ventures Limited	British Virgin Islands, limited liability company	March 21, 2013	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Singapore Pte. Ltd.	Singapore, limited liability company	December 23, 2013	Singapore Dollar ("**SGD**")1 and US$641,879,420	100%	100%	100%	Sales of smart hardware
Xiaomi Best Time International Limited	Hong Kong, limited liability company	December 20, 2018	US$500,000,000	100%	100%	100%	Intra-group capital supervision, collection, remittance, credit guarantee and interest rate risk management
Subsidiaries Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$320,000,000	100%	100%	100%	Sales of smartphones, sales of ecosystem partners' products and provision of customer services
Beijing Xiaomi Electronics Co., Ltd.	Mainland China, limited liability company	January 9, 2012	US$27,000,000	100%	100%	100%	Sales of smart hardware

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2023 and 2022, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2023	2022		
Subsidiaries							
Indirectly held: (continued)							
Beijing Xiaomi Mobile Software Co., Ltd. ("**Xiaomi Mobile**")	Mainland China, limited liability company	May 8, 2012	RMB1,288,000,000	100%	100%	100%	Software and hardware development and provision of software related services
Zhuhai Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	January 25, 2013	RMB2,000,000	100%	100%	100%	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	RMB951,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology India Private Limited ("**Xiaomi India**")	India, limited liability company	October 7, 2014	Indian Rupees ("**INR**") 207,450	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Guangzhou Xiaomi Information Service Co., Ltd.	Mainland China, limited liability company	December 29, 2016	RMB1,000,000	100%	100%	100%	Provision of advertising and promotion services
Xiaomi Home Commercial Co., Ltd.	Mainland China, limited liability company	June 27, 2017	RMB100,000,000	100%	100%	100%	Operation of retail stores
Red Better Limited	British Virgin Islands, limited liability company	October 8, 2013	–	100%	100%	100%	Investment activities
Green Better Limited	British Virgin Islands, limited liability company	December 9, 2013	US$1	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2023 and 2022, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held: As of December 31, 2023	Effective interest held: As of December 31, 2022	Effective interest held: As of the date of this report	Principal activities
Subsidiaries							
Indirectly held: (continued)							
People Better Limited	British Virgin Islands, limited liability company	April 22, 2014	US$1,000,001	100%	100%	100%	Investment activities
Xiaomi Home Technology Co., Ltd.	Mainland China, limited liability company	January 20, 2017	RMB80,000,000	100%	100%	100%	Operation of retail stores
PT. Xiaomi Technology Indonesia	Indonesia, limited liability company	April 23, 2018	Indonesian Rupiah ("IDR") 13,000,000,000	100%	100%	100%	Sales and production of smartphones, sales of television
Shenzhen Xiaomi Information Technology Co., Ltd.	Mainland China, limited liability company	September 29, 2019	RMB591,000,000	100%	100%	100%	Sales of smart hardware and provision of advertising and promotion services
Xiaomi Technology Netherlands B.V.	Netherlands, limited liability company	October 29, 2018	EUR1,000,000	100%	100%	100%	Sales of smart hardware
Shenzhen Xiaomi Communication Technology Co., Ltd.	Mainland China, limited liability company	March 9, 2020	RMB50,000,000	100%	100%	100%	Sales of smart hardware
Shanghai X-Ring Technology Co., Ltd.	Mainland China, limited liability company	December 7, 2021	RMB1,919,999,882	100%	100%	100%	Technical services, integrated circuit chip design and service

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(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2023 and 2022, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held: As of December 31, 2023	Effective interest held: As of December 31, 2022	Effective interest held: As of the date of this report	Principal activities
Subsidiaries							
Indirectly held: (continued)							
Tianxing Digital Technology Co., Ltd. ("**Tianxing Digital**")	Mainland China, limited liability company	December 26, 2013	RMB2,313,630,000	100%	100%	100%	Electronic payment technology services
Xiaomi Technology (Thailand) LIMITED	Thailand, limited liability company	July 4, 2018	Thai Baht ("**THB**") 200,000,000	99.99%	99.99%	99.99%	Sales of smart hardware
Airstar (Tianjin) Commercial Factoring Co., Ltd.	Mainland China, limited liability company	November 19, 2023	RMB400,000,000	100%	–	100%	Commercial factoring business
Xiaomi Smart Appliances (Wuhan) Co., Ltd.	Mainland China, limited liability company	November 19, 2023	RMB500,000	100%	–	100%	Sales of smart hardware
Controlled structured entities (Note (a)):							
Xiaomi Inc.	Mainland China, limited liability company	March 3, 2010	RMB1,850,000,000	100%	100%	100%	E-commerce business
Tianjin Jinxing Venture Investment Co., Ltd.	Mainland China, limited liability company	December 26, 2013	RMB2,476,557,552	100%	100%	100%	Investment activities
Beijing Duokan Technology Co., Ltd.	Mainland China, limited liability company	February 10, 2010	RMB10,000,000	100%	100%	100%	Sales of e-book
Beijing Wali Internet Technologies Co., Ltd.	Mainland China, limited liability company	June 1, 2009	RMB2,100,000	100%	100%	100%	Provision of internet services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2023 and 2022, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held: As of December 31, 2023	Effective interest held: As of December 31, 2022	Effective interest held: As of the date of this report	Principal activities
Controlled structured entities (Note (a)): (continued)							
Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	December 7, 2017	RMB8,728,747,873	24%	20%	24%	Investment activities
Youpin Information Technology Co., Ltd.	Mainland China, limited liability company	April 4, 2018	RMB50,000,000	100%	100%	100%	E-commerce business
Beijing Xiaomi Zhizao Equity Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	September 18, 2021	RMB3,435,085,714	35%	46%	35%	Investment activities
Xiaomi EV Technology Co., Ltd.	Mainland China, limited liability company	November 18, 2021	RMB665,735,674	100%	100%	100%	Smart electric vehicle business, technical services

Notes:

(a) The Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.

(b) The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.

(c) The English names of the subsidiaries are direct translation or transliteration of their Chinese registered names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12(b) Investments accounted for using the equity method

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Investments in associate accounted for using the equity method		
—Listed entities (Note (a))	1,421,275	2,918,299
—Unlisted entities	5,500,966	5,013,893
	6,922,241	7,932,192

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	7,932,192	10,230,751
Additions	72,407	24,530
Disposals and transfers (Note (b))	(1,128,679)	(1,575,316)
Share of net profits/(losses)	45,615	(400,100)
Share of other comprehensive income	9,326	57,211
Share of changes of other reserves	38,532	122,326
Dividends from associates	(40,014)	(76,262)
Impairment provision	(7,138)	(450,948)
At the end of the year	6,922,241	7,932,192

Notes:

(a) As of December 31, 2023, the fair value of the investments in associates which were listed entities was RMB2,284,313,000 (December 31, 2022: RMB4,204,010,000).

(b) From February to November 2023, the Group disposed in total 2,376,744 shares of Beijing Roborock Technology Co., Ltd ("**Beijing Roborock**") and generated aggregate net gains of approximately RMB516,020,000. On December 5, 2023, the Group derecognized the investment in Beijing Roborock after the Group lost significant influence, and recognized the remaining equity interest in Beijing Roborock as a financial asset measured at fair value through profit or loss, with a deemed disposal gain of RMB957,661,000.

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(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation and other relevant facts and circumstances, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

As of December 31, 2023, there were no individually material associates that are accounted for using the equity method. Aggregated amount of the Group's share of profits/(losses) of individually immaterial associates accounted for using the equity method is as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Aggregate amounts of the Group's share of:		
Net profit/(loss)	32,178	(647,701)
Other comprehensive income	9,326	57,211
Total comprehensive income/(loss)	41,504	(590,490)

There are no contingent liabilities relating to the Group's interests in the associates.

13 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2023 and 2022 are analyzed as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Current income tax	3,908,395	2,267,077
Deferred income tax (Note 35)	628,456	(835,689)
Income tax expenses	4,536,851	1,431,388

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(Expressed in RMB unless otherwise indicated)

13 Income tax expenses (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Profit before income tax	22,011,047	3,933,956
Tax calculated at statutory income tax rate of 25%	5,502,762	983,489
Tax effects of:		
—Effect of different tax rates in other jurisdictions (Note (a),(b),(c))	717,310	738,249
—Preferential income tax rates applicable to subsidiaries (Note (d))	(2,641,645)	(344,188)
—Tax losses and temporary differences for which no deferred income tax assets was recognized	2,030,571	679,419
—Expenses not deductible for income tax purposes	558,903	331,589
—Utilization of previously unrecognized deductible tax losses and temporary differences	(91,147)	(9,617)
—Recognition of previously unrecognized tax losses and temporary differences	354,861	28,656
—Super Deduction for research and development expenses (Note (e))	(1,301,676)	(691,793)
—Income not subject to tax	(771,008)	(155,801)
—Reversal of deferred income tax assets	—	90,082
—Others	177,920	(218,697)
Income tax expenses	4,536,851	1,431,388

Notes:

(a) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the share-based payments (Note 29), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("**BVI**") are exempt from BVI income taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 Income tax expenses (continued)

Notes: (continued)

(b) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits for the years presented, based on the existing legislation, interpretations and practices in respect thereof.

(c) India income tax

Entities incorporated in India are subject to corporate income tax at tax rates of 25% to 35% on the assessable profits for the years presented, based on the existing legislation, interpretations and practices in respect thereof.

(d) Preferential EIT rate

Certain subsidiaries in mainland China are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Xiaomi Mobile was qualified as a "Key Software Enterprise" in the third quarter of 2018 and renewed this qualification annually, hence it enjoyed a preferential income tax rate of 10% from 2017 to 2022. The directors of the Company consider Xiaomi Mobile can still be qualified upon annual renewal in the first half of 2024 and hence continues to enjoy the preferential income tax rate of 10% for the year ended December 31, 2023.

Tianxing Digital was qualified as a "High and New Technology Enterprise" in November 2018 and renewed this qualification in December 2021, hence it enjoys a preferential income tax rate of 15% from 2018 to 2023.

(e) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The State Taxation Administration of The People's Republic of China ("**STA**") further announced in March 2021 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction until December 2023. The STA announced in September 2022 to increase the Super Deduction rate to 200% of their research and development expenses from October 1, 2022 to December 31, 2022. The STA further announced in March 2023 that enterprises engaging in research and development activities would entitle to claim 200% of their research and development expenses as Super Deduction from January 1, 2023. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the period.

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(Expressed in RMB unless otherwise indicated)

13 Income tax expenses (continued)

Notes: (continued)

(f) Withholding tax in mainland China ("**WHT**")

According to the New Corporate Income Tax Law ("**New EIT Law**"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings of these subsidiaries was accrued as of the end of each reporting period.

14 Earnings per share

(a) Basic

Basic earnings per share for the years ended December 31, 2023 and 2022 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,	
	2023	2022
Net profit attributable to the owners of the Company (RMB'000)	**17,475,173**	2,474,030
Weighted average number of ordinary shares in issue (thousand shares)	**24,884,874**	24,828,316
Basic earnings per share (expressed in RMB per share)	**0.70**	0.10

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(Expressed in RMB unless otherwise indicated)

14 Earnings per share (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the inclusion of potential ordinary shares from the convertible bonds would be anti-dilutive, it is not included in the calculation of diluted earnings per share for the year ended December 31, 2023.

	Year ended December 31, 2023	2022
Net profit attributable to the owners of the Company (RMB'000)	**17,475,173**	2,474,030
Weighted average number of ordinary shares in issue (thousand shares)	**24,884,874**	24,828,316
Adjustments for RSUs and share options granted to employees (thousand shares)	**440,117**	468,412
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	**25,324,991**	25,296,728
Diluted earnings per share (expressed in RMB per share)	**0.69**	0.10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property, plant and equipment

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2023						
Cost	2,372,125	32,897	4,762,328	2,184,779	2,877,312	12,229,441
Accumulated depreciation	(1,236,019)	(22,412)	(287,833)	(1,544,956)	—	(3,091,220)
Net book amount	1,136,106	10,485	4,474,495	639,823	2,877,312	9,138,221
Year ended December 31, 2023						
Opening net book amount	1,136,106	10,485	4,474,495	639,823	2,877,312	9,138,221
Additions	724,890	8,595	—	430,947	4,416,125	5,580,557
Transfer	169,085	—	2,897,381	—	(3,066,466)	—
Transfer from investment properties to buildings	—	—	273,354	—	—	273,354
Transfer from buildings to investment properties	—	—	(1,777)	—	—	(1,777)
Disposals	(35,606)	(51)	—	(48,451)	—	(84,108)
Depreciation charge (Note 9)	(527,218)	(3,164)	(149,436)	(509,604)	—	(1,189,422)
Currency translation differences	950	319	—	2,731	—	4,000
Closing net book amount	1,468,207	16,184	7,494,017	515,446	4,226,971	13,720,825
At December 31, 2023						
Cost	3,180,964	43,016	7,953,621	2,093,698	4,226,971	17,498,270
Accumulated depreciation	(1,712,757)	(26,832)	(459,604)	(1,578,252)	—	(3,777,445)
Net book amount	1,468,207	16,184	7,494,017	515,446	4,226,971	13,720,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property, plant and equipment (continued)

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2022						
Cost	1,775,713	25,717	3,690,248	1,885,773	1,707,106	9,084,557
Accumulated depreciation	(876,772)	(19,356)	(173,072)	(1,050,736)	—	(2,119,936)
Net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621
Year ended December 31, 2022						
Opening net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621
Additions	628,619	9,358	—	348,766	2,237,311	3,224,054
Transfer from construction in progress to investment properties and buildings	—	—	991,793	—	(1,067,179)	(75,386)
Transfer from investment properties to buildings	—	—	74,566	—	—	74,566
Disposals	(8,408)	(2,039)	—	(52,962)	—	(63,409)
Depreciation charge (Note 9)	(384,379)	(3,358)	(109,040)	(493,280)	—	(990,057)
Currency translation differences	1,333	163	—	2,262	74	3,832
Closing net book amount	1,136,106	10,485	4,474,495	639,823	2,877,312	9,138,221
At December 31, 2022						
Cost	2,372,125	32,897	4,762,328	2,184,779	2,877,312	12,229,441
Accumulated depreciation	(1,236,019)	(22,412)	(287,833)	(1,544,956)	—	(3,091,220)
Net book amount	1,136,106	10,485	4,474,495	639,823	2,877,312	9,138,221

Construction in progress as of December 31, 2023 and 2022 mainly comprises new office buildings being constructed in mainland China.

15 Property, plant and equipment (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Cost of sales	147,454	123,900
Administrative expenses	202,531	147,520
Selling and marketing expenses	388,218	454,414
Research and development expenses	451,219	264,223
	1,189,422	990,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2023					
Cost	1,696,639	4,592,900	2,239,030	857,031	9,385,600
Accumulated amortization	—	(3,292,644)	(1,023,784)	(439,496)	(4,755,924)
Net book amount	1,696,639	1,300,256	1,215,246	417,535	4,629,676
Year ended December 31, 2023					
Opening net book amount	1,696,639	1,300,256	1,215,246	417,535	4,629,676
Additions	—	6,004,245	3,882	426,621	6,434,748
Disposals	—	—	(318)	(4,390)	(4,708)
Amortization charge (Note 9)	—	(1,988,681)	(237,347)	(208,280)	(2,434,308)
Currency translation differences	—	1	1,624	1,706	3,331
Closing net book amount	1,696,639	5,315,821	983,087	633,192	8,628,739
At December 31, 2023					
Cost	1,696,639	11,159,486	2,246,985	1,263,547	16,366,657
Accumulated amortization	—	(5,843,665)	(1,263,898)	(630,355)	(7,737,918)
Net book amount	1,696,639	5,315,821	983,087	633,192	8,628,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022					
Cost	1,696,639	4,566,090	2,185,896	465,941	8,914,566
Accumulated amortization	—	(2,258,648)	(775,872)	(300,887)	(3,335,407)
Net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159
Year ended December 31, 2022					
Opening net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159
Additions	—	33,390	31,227	378,198	442,815
Disposals	—	(6,607)	—	(3,190)	(9,797)
Amortization charge (Note 9)	—	(1,035,493)	(233,592)	(127,357)	(1,396,442)
Currency translation differences	—	1,524	7,587	4,830	13,941
Closing net book amount	1,696,639	1,300,256	1,215,246	417,535	4,629,676
At December 31, 2022					
Cost	1,696,639	4,592,900	2,239,030	857,031	9,385,600
Accumulated amortization	—	(3,292,644)	(1,023,784)	(439,496)	(4,755,924)
Net book amount	1,696,639	1,300,256	1,215,246	417,535	4,629,676

Note:

(a) Impairment test for goodwill

For the purpose of impairment tests of goodwill, goodwill is allocated to groups of CGUs. Such groups of CGUs represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2023 and 2022 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on VIU calculations by using the discounted cash flow method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

Note (continued):

(a) Impairment test for goodwill (continued)

(i) Impairment test for goodwill of Zimi

On July 5, 2021, the Group completed the acquisition of Zimi which mainly engages in the design, manufacture and sales of mobile charges and related products, and recognized goodwill amounting to RMB1,382,143,000, which was allocated to Zimi as it was monitored by management at Zimi level and goodwill impairment assessment was performed accordingly as of December 31, 2021. Under an internal group reorganization as completed in 2022, the Group has integrated Zimi with a business unit of the Group which has similar business with Zimi to maximize the synergy from the acquisition of Zimi. Accordingly, the goodwill arising from the acquisition of Zimi was reallocated to the aforesaid business unit as identified at the lowest level which management monitors the related goodwill for internal purposes.

The VIU was determined using discounted cash flows calculation which derived from the five-year financial projections plus a terminal value related to cash flows beyond the projection period (five-year period) extrapolated using estimated perpetual growth rate. For the impairment test as of December 31, 2023, the key assumptions used by management for VIU calculation include:

(1) the annual growth rate of revenue for a five-year period ranging from 2%–4% (2022: 9%–11%) for the business, the gross profit range from 20%–21% (2022: 17%–19%), which was determined by the management based on past performance and its expectation for market development;

(2) pre-tax discount rate of 22% (2022: 22%) was estimated by using the weighted average cost of capital ("**WACC**") method. The WACC was calculated by referring to public market data including risk free rate, market return, beta of comparable public companies etc. and the specific risk of the business;

(3) the estimated perpetual growth rate used in the VIU calculation for period beyond the projected period was 2.2% (2022: 2.0%), after making reference to long term inflation rate of the PRC.

As of December 31, 2023, the recoverable amount calculated based on VIU exceeded carrying value by RMB183,770,000 (2022: RMB202,736,000). Had annual growth rate of revenue for a five-year period been 5% lower or the pre-tax discount rate been 1% higher, the headroom would be decreased to RMB69,283,000 or RMB63,342,000 (2022: RMB81,133,000 or RMB56,531,000) respectively.

Reasonably possible changes in other key assumptions used in the impairment test of goodwill will not lead to the goodwill impairment loss as of December 31, 2023.

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16 Intangible assets (continued)

Note (continued):

(a) Impairment test for goodwill (continued)

(ii) Impairment test for goodwill of others

The goodwill of others is mainly generated from the acquisitions of Duokan International Group Inc. amounting to RMB141,360,000 and Wali International amounting to RMB106,807,000 before 2015. Management forecasted the average annual revenue growth rate in five-year period is 5%, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates of 2.2% (2022: 2.0%). Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGUs.

The management performed impairment test for the goodwill and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2023 and 2022.

Amortization charges were expensed off in the following categories in the consolidated income statement:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Cost of sales	**1,207,569**	—
Administrative expenses	**113,521**	146,744
Selling and marketing expenses	**7,600**	6,511
Research and development expenses	**1,105,618**	1,243,187
	2,434,308	1,396,442

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the years ended December 31, 2023 and 2022, no goodwill or other identifiable intangible assets have been impaired.

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17 Leases

(i) The consolidated balance sheet includes the following amounts relating to leases:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Right-of-use assets (Note (a))		
Land use rights	8,142,639	8,118,481
Servers and other equipment	67,767	488,430
Properties	1,766,195	1,757,332
Other assets	2,293	741
	9,978,894	10,364,984
Lease liabilities (Note (b))		
Current	(712,011)	(947,392)
Non-current	(1,256,155)	(1,464,736)
	(1,968,166)	(2,412,128)

Notes:

(a) Included in the line item 'Other non-current assets' in the consolidated balance sheet. The addition of right-of-use assets for the year ended December 31, 2023 was RMB927,317,000 (2022: RMB3,019,150,000).

(b) Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.

(ii) The consolidated income statement includes the following amounts relating to leases:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Depreciation charge of right-of-use assets (Note (a))	1,149,698	1,248,886
Interest expense (included in finance costs)	83,117	101,484
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and research and development expenses)	403,839	463,732
Expense relating to variable lease payments not included in lease liabilities (included in selling and marketing expenses)	215,031	255,966
	1,851,685	2,070,068

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 Leases (continued)

Besides land use rights, the Group leases offices, warehouses, retail stores and servers.

The total cash outflow in financing activities for leases during the year ended December 31, 2023 was RMB1,197,692,000 (2022: RMB1,281,785,000), including principal elements of lease payments of approximately RMB1,114,575,000 (2022: RMB1,180,301,000) and related interest paid of approximately RMB83,117,000 (2022: RMB101,484,000), respectively.

Note:

(a) The depreciation charge of land use rights, servers and other equipment, properties and other assets for the year ended December 31, 2023 were RMB217,725,000 (2022: RMB171,042,000), RMB420,663,000 (2022: RMB416,189,000), RMB511,128,000 (2022: RMB661,002,000) and RMB182,000 (2022: RMB653,000), respectively.

18 Other non-current assets

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Right-of-use assets (Note 17)	**9,978,894**	10,364,984
Investment properties (Note (a))	**2,287,548**	2,863,867
Long-term deposits to suppliers	**1,000,402**	1,256,373
Prepayments for property, plant and equipment	**1,064,273**	921,434
Others	**573,143**	533,803
	14,904,260	15,940,461

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note:

(a) Investment properties

	Buildings and facilities RMB'000	Land use rights RMB'000	Total RMB'000
COST			
At January 1, 2023	1,656,378	1,493,759	3,150,137
Transfer from property, plant and equipment	1,777	—	1,777
Transfer from land use rights	—	43,942	43,942
Transfer to property, plant and equipment	(295,918)	—	(295,918)
Transfer to land use rights	—	(322,895)	(322,895)
At December 31, 2023	1,362,237	1,214,806	2,577,043
ACCUMULATED DEPRECIATION			
At January 1, 2023	(77,260)	(209,010)	(286,270)
Charge for the year (Note 9)	(36,671)	(26,188)	(62,859)
Transfer to property, plant and equipment	22,564	—	22,564
Transfer to land use rights	—	37,070	37,070
At December 31, 2023	(91,367)	(198,128)	(289,495)
NET BOOK VALUE			
At December 31, 2023	1,270,870	1,016,678	2,287,548

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

	Buildings and facilities RMB'000	Land use rights RMB'000	Total RMB'000
COST			
At January 1, 2022	1,616,858	1,493,759	3,110,617
Addition	44,420	—	44,420
Transfer from property, plant and equipment	75,386	—	75,386
Transfer to property, plant and equipment	(80,286)	—	(80,286)
At December 31, 2022	1,656,378	1,493,759	3,150,137
ACCUMULATED DEPRECIATION			
At January 1, 2022	(40,866)	(179,116)	(219,982)
Charge for the year (Note 9)	(42,114)	(29,894)	(72,008)
Transfer to property, plant and equipment	5,720	—	5,720
At December 31, 2022	(77,260)	(209,010)	(286,270)
NET BOOK VALUE			
At December 31, 2022	1,579,118	1,284,749	2,863,867

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(i) Details of the Group's main investment properties and information about the fair value hierarchy as of December 31, 2023 and 2022 are as follows:

	As of December 31,			
	2023		2022	
	Carrying amount RMB'000	Fair value (level 3) RMB'000	Carrying amount RMB'000	Fair value (level 3) RMB'000
Main investment properties	2,272,703	2,604,900	2,784,676	3,477,280

The Group's investment properties were valued at December 31, 2023 for investment property units located in Haidian and Yizhuang, Beijing and Haizhu, Guangzhou by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalization of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31, 2023. The key inputs were term yield and reversionary yield which ranged from 3% to 6% (2022: from 3% to 6%).

(ii) Property rental income earned during the year ended December 31, 2023 was approximately RMB103,981,000 (2022: RMB104,505,000). The investment property units have committed tenants for the next 2 years to 10 years (2022: 3 years to 11 years). As of December 31, 2023, as a lessor, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	As of December 31,	
	2023 RMB'000	2022 RMB'000
No later than 1 year	96,550	122,731
Later than 1 year and no later than 10 years	203,370	358,363
	299,920	481,094

(iii) Depreciation charges of approximately RMB62,859,000 for the year ended December 31, 2023 have been charged in profit or loss (2022: RMB72,008,000).

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19 Financial instruments by category

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets measured at fair value:		
— Long-term investments measured at fair value through profit or loss (Note 20)	60,199,798	55,979,974
— Short-term investments measured at fair value through profit or loss (Note 20)	20,193,662	9,845,910
— Short-term investments measured at fair value through other comprehensive income (Note 20)	582,131	449,109
— Bills receivables measured at fair value through other comprehensive income	125,661	40,003
Financial assets measured at amortized costs:		
— Trade and notes receivables (Note 22)	12,150,928	11,795,074
— Loan receivables (Note 21)	9,772,589	7,829,563
— Other receivables	10,103,353	11,265,671
— Long-term investments measured at amortized cost (Note 20)	364,476	405,371
— Short-term investments measured at amortized cost (Note 20)	502,816	—
— Long-term bank deposits (Note 25(c))	18,293,650	16,788,346
— Short-term bank deposits (Note 25(c))	52,797,857	29,874,707
— Restricted cash (Note 25(b))	4,794,031	3,956,786
— Cash and cash equivalents (Note 25(a))	33,631,313	27,607,261
	223,512,265	175,837,775
Liabilities as per balance sheet		
Financial liabilities measured at fair value:		
— Liabilities to fund investors (Note 30)	2,228,308	806,000
Financial liabilities measured at amortized cost:		
— Trade payables (Note 31)	62,098,500	53,093,543
— Other payables	14,619,660	11,149,880
— Borrowings (Note 34)	27,857,345	23,644,002
— Liabilities to fund investors (Note 30)	11,574,737	14,053,228
— Lease liabilities (Note 17)	1,968,166	2,412,128
	120,346,716	105,158,781

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(Expressed in RMB unless otherwise indicated)

20 Investments

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Amortized cost (i)	502,816	—
— Fair value through other comprehensive income (ii)	582,131	449,109
— Fair value through profit or loss (iii)	20,193,662	9,845,910
	21,278,609	10,295,019
Non-current assets		
Long-term investments measured at amortized cost (ii)	364,476	405,371
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments (iv)	15,291,625	14,491,407
— Preferred shares investments (v)	34,444,516	32,358,256
— Treasury investments (vi)	6,846,562	6,216,228
— Other investments (vii)	3,617,095	2,914,083
	60,564,274	56,385,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

Movement of long-term investments measured at fair value through profit or loss is as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	55,979,974	50,113,702
Additions and transfers	5,691,031	8,615,245
Disposals	(5,183,986)	(2,898,750)
Change in fair value	3,238,848	(2,046,690)
Currency translation differences	473,931	2,196,467
At the end of the year	60,199,798	55,979,974

(i) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are shareholders' deposits deposited by the Group in an associate Chongqing Xiaomi Consumer Finance Co., Ltd., with an interest rate of 3.27% per annum. The investments are held for collection of contractual cash flow and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.

(ii) Short-term investments measured at fair value through other comprehensive income and long-term investments measured at amortized cost

Short-term investments measured at fair value through other comprehensive income and long-term investments measured at amortized cost are mainly debt securities, denominated in HK$, US$ and RMB, where the contractual cash flows are solely principal and interest. The securities are mainly issued by corporates and banks and the fair value of such debt securities was determined based on quoted price on bond market. None of these investments are past due.

Debt securities that are only held for collection of contractual cash flows are measured at amortized cost. Debt securities that are held for both collection of contractual cash flows and for selling, are measured at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

(iii) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB and US$, with expected rates of return ranging from 0.25% to 3.25% per annum for the year ended December 31, 2023 (2022: 1.25% to 3.50%). None of these investments are past due.

(iv) Ordinary shares investments

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Listed	11,388,792	11,019,105
Unlisted	3,902,833	3,472,302
	15,291,625	14,491,407

The fair values of the listed securities are determined based on the closing prices quoted in active markets (level 1: quoted price (unadjusted) in active markets). For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as Level 3 of the fair value hierarchy. Refer to Note 3.3 for the major assumptions used in the valuation for investment in private companies.

(v) Preferred shares investments — unlisted

During the year ended December 31, 2023, the Group made aggregate preferred shares investments of RMB1,761,454,000 (2022: RMB4,253,445,000). These investees are principally engaged in sales of IoT and lifestyle products, provision of internet services and integrated circuit industry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

(v) Preferred shares investments — unlisted (continued)

The preferred shares investments in these investees are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. Refer to Note 3.3 for the major assumptions used in the valuation for investment in private companies.

(vi) Treasury investments

Treasury investments mainly represent investments in the debt instruments issued by certain reputable banks or non-bank financial institutions or entities purchased in the secondary market. As these investments were classified as debt investment and returns are not solely payments of principal and interest, they are measured at fair value through profit or loss.

(vii) Other investments

Other investments primarily consist of investments in private equity investment funds. As fund investments classified as debt investment which are not solely payments of principal and interest, they are measured at fair value through profit or loss.

(viii) Amounts recognized in profit or loss of financial investments measured at fair value through profit or loss

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments	1,401,934	(3,748,111)
— Preferred shares investments	1,690,946	2,271,904
— Treasury and other investments	120,695	(575,085)
Short-term investments measured at fair value through profit or loss	292,701	389,282
	3,506,276	(1,662,010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 Loan receivables

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Unsecured loan	10,645,144	8,625,680
Less: credit loss allowance	(872,555)	(796,117)
	9,772,589	7,829,563

Loan receivables are loans derived from subsidiaries of the Group which engage in the factoring finance business. Such amounts are recorded at the principal amount less expected credit loss. Loan receivables are denominated in RMB and US$.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

22 Trade and notes receivables

Details of trade and notes receivables are as follows:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Trade receivables	10,253,922	9,334,300
Notes receivables	2,213,964	2,666,114
Less: credit loss allowance	(316,958)	(205,340)
	12,150,928	11,795,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

22 Trade and notes receivables (continued)

The carrying amounts of the Group's trade and notes receivables are denominated in the following currencies:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
RMB	7,763,251	7,040,345
US$	1,987,801	2,253,596
EUR	886,786	1,384,041
INR	717,317	501,725
Others	795,773	615,367
	12,150,928	11,795,074

Movements on the Group's credit loss allowance of trade and notes receivables are as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	(205,340)	(163,977)
Credit loss allowance (recognized)	(116,902)	(44,745)
Receivables written off during the year as uncollectable	5,284	3,382
At the end of the year	(316,958)	(205,340)

(a) The Group generally allows a credit period within 180 days to its customers. Aging analysis of trade and notes receivables based on invoice date is as follows:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Up to 3 months	9,108,133	9,325,061
3 to 6 months	1,666,418	1,946,964
6 months to 1 year	522,612	469,147
1 to 2 years	1,016,563	150,685
Over 2 years	154,160	108,557
	12,467,886	12,000,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Trade and notes receivables (continued)

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group's expected loss rates are mainly determined based on the corresponding historical credit loss rates which are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the expected changes in macroeconomic factors, such as Consumer Price Index ("**CPI**"), Gross Domestic Product ("**GDP**") and Business Climate Index ("**BCI**"), and accordingly adjusts the historical loss rates based on expected changes in all factors identified. The loss allowance provisions as of December 31, 2023 and 2022 are determined as follows:

	Current	Up to 3 months past due	3 to 6 months past due	Over 6 months past due	Total
December 31, 2023:					
Expected loss rate	**0.68%**	**3.57%**	**6.94%**	**50.64%**	
Gross carrying amount (in thousand)	**6,385,387**	**2,896,056**	**753,327**	**219,152**	**10,253,922**
Loss provision (in thousand)	**43,493**	**103,444**	**52,310**	**110,981**	**310,228**
December 31, 2022:					
Expected loss rate	1.00%	2.34%	8.10%	61.99%	
Gross carrying amount (in thousand)	7,155,007	1,823,112	240,420	115,761	9,334,300
Loss provision (in thousand)	71,350	42,747	19,479	71,764	205,340

As of December 31, 2023 and 2022, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China, India and Europe who usually settle the amounts due by them within 180 days.

As of December 31, 2023 and 2022, the credit loss allowance for notes receivables is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

23 Prepayments and other receivables

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	7,591,022	8,919,697
Recoverable value-added tax and other taxes	7,248,105	4,641,951
Prepayments to suppliers	1,786,057	1,567,950
Deposits to suppliers	735,031	382,399
Receivables from market development fund	190,617	153,919
Prepaid fees for patent expenses and other prepaid expenses	1,148,975	1,102,919
Receivables from employees related to Employee Fund (Note (a))	90,350	95,850
Receivables related to share options and RSUs granted to employees	261,239	159,302
Receivables for disposal of investments	57,062	251,733
Operating and finance lease receivables	417,435	484,588
Others	760,597	962,784
	20,286,490	18,723,092
Less: credit loss allowance	(207,615)	(144,601)
	20,078,875	18,578,491

Note:

(a) Receivables from employees related to Employee Fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 29.

As of December 31, 2023 and 2022, the carrying amounts of other receivables were primarily denominated in RMB and US$ and approximated their fair value at each of the reporting dates. Other receivables that are measured at amortized costs included receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties, deposit to suppliers, receivables from employees related to Employee Fund, receivables related to share options and RSUs granted to employees, receivables for disposal of investments, operating and finance lease receivables and others were considered to be of low credit risk, and thus the impairment provision recognized during the years ended December 31, 2023 and 2022 was limited to 12 months expected losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Inventories

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Raw materials	11,455,435	17,122,900
Finished goods	27,132,256	28,650,303
Work in progress	3,564,974	3,068,508
Spare parts	3,494,076	4,410,902
Others	952,492	655,638
	46,599,233	53,908,251
Less: provision for impairment (Note (a))	(2,176,396)	(3,470,360)
	44,422,837	50,437,891

Note:

(a) For the year ended December 31, 2023, provision for impairment of RMB3,861,753,000 (2022: RMB7,794,470,000) was recorded in "cost of sales" in the consolidated income statement.

Provision for impairment movements for the years ended December 31, 2023 and 2022 are as below:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	(3,470,360)	(1,331,147)
Provision for impairment	(3,861,753)	(7,794,470)
Transfer to cost of sales upon sold	5,155,717	5,655,257
At the end of the year	(2,176,396)	(3,470,360)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31, 2023 RMB'000	2022 RMB'000
Cash at bank and in hand	**26,909,303**	22,156,628
Short-term bank deposits with initial terms within three months	**6,722,010**	5,450,633
	33,631,313	27,607,261

Cash and cash equivalents are denominated in the following currencies:

	As of December 31, 2023 RMB'000	2022 RMB'000
RMB	**18,661,376**	13,247,547
US$	**9,956,424**	9,971,440
EUR	**1,216,482**	1,165,271
INR	**354,090**	844,278
HK$	**771,113**	966,876
Others	**2,671,828**	1,411,849
	33,631,313	27,607,261

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 5.88% per annum for the year ended December 31, 2023 (2022: 1.33%).

(b) Restricted cash

As of December 31, 2023, among the restricted cash, INR45,321,947,000 (equivalent to RMB3,874,120,000) was restricted by India authorities due to the in-progress investigation described in Note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Cash and bank balances (continued)

(c) Term bank deposits

An analysis of the Group's term bank deposits as of December 31, 2023 and 2022 are listed as below:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Short-term bank deposits denominated in:		
RMB	18,521,889	8,709,906
INR	31	37
US$	34,275,937	21,164,764
	52,797,857	29,874,707
Long-term bank deposits denominated in:		
RMB	16,808,185	15,392,410
INR	151	141
US$	1,485,314	1,395,795
	18,293,650	16,788,346

Short-term bank deposits are bank deposits with original maturities over three months, under twelve months and redeemable on maturity. Long-term bank deposits are bank deposits with original maturities over twelve months and redeemable on maturity.

The effective interest rate of the short-term bank deposits and long-term bank deposits of the Group in RMB ranged from 1.55% to 3.95% and 2.85% to 3.50% per annum for the year ended December 31, 2023, respectively (2022: from 1.65% to 3.95%, and 3.20% to 3.95%, respectively).

The effective interest rate of the short-term bank deposits and long-term bank deposits of the Group in US$ ranged from 5.15% to 6.10% and 5.50% to 5.71% per annum for the year ended December 31, 2023, respectively (2022:from 2.80% to 5.87%, and 5.30% to 5.53%, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares

(a) Share capital

Authorized:

As of December 31, 2023 and 2022, the total authorized number of ordinary shares is 270,000,000,000 shares with par value of US$0.0000025 per share.

Issued:

As of December 31, 2023, the number of issued share capital of Class A and Class B Share is 4,576,032,760 and 20,506,393,747, respectively. Each Class A ordinary share will entitle the holder to exercise 10 votes, and each Class B ordinary share will entitle the holder to exercise one vote, on any resolution tabled at the Company's general meetings, except for resolution with respect to a limited number of reserved matters, in relation to which each ordinary share is entitled to one vote.

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2023		**24,951,334**	**62**	**406**	**59,483,288**
Exercise of share options and RSUs		**59,868**	**—**	**2**	**658,545**
Shares repurchased and cancelled		**(119,200)**	**—**	**(2)**	**(1,216,642)**
Issuance of ordinary shares to Share Scheme Trusts	(a)	**176,120**	**—**	**—**	**—**
Release of ordinary shares from Share Scheme Trusts	(a)	**—**	**—**	**1**	**1,788,344**
Share issued for acquisition of Zimi completed in 2021		**5,305**	**—**	**—**	**64,752**
As of December 31, 2023		**25,073,427**	**62**	**407**	**60,778,287**
As of January 1, 2022		24,992,449	62	407	59,717,626
Exercise of share options and RSUs		88,385	—	3	890,469
Shares repurchased and cancelled		(239,462)	—	(4)	(2,539,074)
Issuance of ordinary shares to Share Scheme Trusts	(a)	102,907	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	—	1,315,868
Share issued for acquisition of Zimi completed in 2021		7,055	—	—	98,399
As of December 31, 2022		24,951,334	62	406	59,483,288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares (continued)

(a) Share capital (continued)

Issued (continued):

Notes:

(a) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "**Share Scheme Trusts**").

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2023	20,289	190,795
Shares repurchased	133,677	1,485,385
Shares cancelled	(119,200)	(1,216,644)
Release of ordinary shares from Share Scheme Trusts	(1,938)	(21,245)
As of December 31, 2023	32,828	438,291
As of January 1, 2022	24,503	343,730
Shares repurchased	235,248	2,386,143
Shares cancelled	(239,462)	(2,539,078)
As of December 31, 2022	20,289	190,795

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares (continued)

(b) Treasury shares (continued)

During the year ended December 31, 2023, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
April 2023	1,938	12.36	12.02	23,773
May 2023	4,400	10.54	10.46	46,198
June 2023	38,200	11.00	9.96	407,831
July 2023	6,900	10.88	10.66	74,525
September 2023	37,700	12.00	11.58	445,714
October 2023	16,000	12.00	11.64	189,868
November 2023	1,600	15.00	14.96	23,990
December 2023	26,939	16.36	14.44	411,759
	133,677			1,623,658

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(Expressed in RMB unless otherwise indicated)

27 Other reserves

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2023	7,415,315	381,026	2,632,834	52,225	420,118	1,764,799	284,691	12,951,008
Appropriation to statutory reserves (Note (a))	–	–	704,678	–	–	–	–	704,678
Appropriation to general reserves	–	–	–	15,661	–	–	–	15,661
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 29)	3,280,371	–	–	–	–	–	–	3,280,371
– exercise of share options and RSUs	(580,578)	–	–	–	–	–	–	(580,578)
Share of other comprehensive income of investments accounted for using the equity method (Note 12(b))	–	–	–	–	–	–	9,326	9,326
Share of other reserves of investments accounted for using the equity method (Note 12(b))	–	–	–	–	38,532	–	–	38,532
Release of ordinary shares from Share Scheme Trust (Note 26(a)(a))	(1,805,864)	–	–	–	–	–	–	(1,805,864)
Transfer of share of other reserves to profit or loss upon disposal and deemed disposal of investments accounted for using equity method	–	–	–	–	(85,730)	–	–	(85,730)
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of investments accounted for using equity method	–	–	–	–	–	–	(2,167)	(2,167)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(26,711)	(26,711)
Share consideration for acquisition of Zimi completed in 2021	–	–	–	–	(64,752)	–	–	(64,752)
Others	–	–	(2,083)	–	–	–	–	(2,083)
Currency translation differences (Note (b))	–	1,051,927	–	–	–	–	–	1,051,927
At December 31, 2023	8,309,244	1,432,953	3,335,429	67,886	308,168	1,764,799	265,139	15,483,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves (continued)

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022	6,694,157	(3,218,845)	2,269,502	54,123	815,986	1,764,799	156,926	8,536,648
Appropriation to statutory reserves (Note (a))	–	–	384,506	–	–	–	–	384,506
Appropriation to general reserves	–	–	–	(1,898)	–	–	–	(1,898)
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 29)	2,821,775	–	–	–	–	–	–	2,821,775
– exercise of share options and RSUs	(793,005)	–	–	–	–	–	–	(793,005)
Share of other comprehensive income of investments accounted for using the equity method (Note 12(b))	–	–	–	–	–	–	57,211	57,211
Share of other reserves of investments accounted for using the equity method (Note 12(b))	–	–	–	–	122,326	–	–	122,326
Release of ordinary shares from Share Scheme Trust (Note 26(a)(a))	(1,307,612)	–	–	–	–	–	–	(1,307,612)
Transfer of share of other reserves to profit or loss upon disposal and deemed disposal of investments accounted for using equity method	–	–	–	–	(419,795)	–	–	(419,795)
Transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of investments accounted for using equity method	–	–	–	–	–	–	93,311	93,311
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(22,754)	(22,754)
Share consideration for acquisition of Zimi completed in 2021	–	–	–	–	(98,399)	–	–	(98,399)
Others	–	–	(21,174)	–	–	–	(3)	(21,177)
Currency translation differences (Note (b))	–	3,599,871	–	–	–	–	–	3,599,871
At December 31, 2022	7,415,315	381,026	2,632,834	52,225	420,118	1,764,799	284,691	12,951,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves (continued)

Notes:

(a) In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made. With approvals obtained from respective boards of directors of these companies, the reserve fund can be used to offset accumulated deficit or to increase capital.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of US$ to presentation currency of RMB.

(c) Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 29 for detail.

28 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the "Xiaomi Corporation 2011 Employee Stock Option Plan" ("**2011 Plan**") with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan was valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the "2012 Employee Stock Incentive Plan" ("**Pre-IPO ESOP**"). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP was valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares approved was 2,512,694,900. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the establishment of the 2018 Share Option Scheme. The purpose of 2018 Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under 2018 Share Option Scheme was 1,568,094,311 shares.

On June 17, 2018, the Board of Directors of the Company adopted the establishment of the 2018 Share Award Scheme. The purpose of the 2018 Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the 2018 Share Award Scheme will not exceed 1,118,806,541 shares without shareholders' approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

On March 24, 2023, the Board of Directors of the Company adopted the 2023 Share Scheme. The purpose of the 2023 Share Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the 2023 Share Scheme will not exceed 2,503,959,565 shares without shareholder's approval.

Pre-IPO ESOP

Share options granted to employees

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2023	**345,873,793**	**0.05**
Forfeited during the year	**(10,565,000)**	**0.11**
Transferred to Share Scheme Trust (Note 26(a)(a))	**(4,735,000)**	**0.12**
Exercised during the year	**(59,868,669)**	**0.18**
Outstanding as of December 31, 2023	**270,705,124**	**0.02**
Exercisable as of December 31, 2023	**238,753,023**	**0.25**
Outstanding as of January 1, 2022	466,216,237	0.08
Forfeited during the year	(28,049,666)	0.21
Transferred to Share Scheme Trust (Note 26(a)(a))	(12,883,200)	0.10
Exercised during the year	(79,409,578)	0.18
Outstanding as of December 31, 2022	345,873,793	0.05
Exercisable as of December 31, 2022	252,266,503	0.23

The weighted-average remaining contract life for outstanding share options was 2.51 years and 3.39 years as of December 31, 2023 and 2022, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

2018 Share Option Scheme

Share options granted to employees

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (HK$)
Outstanding as of January 1, 2023	**120,700,000**	**24.53**
Forfeited during the year	**—**	**—**
Outstanding as of December 31, 2023	**120,700,000**	**24.53**
Exercisable as of December 31, 2023	**10,537,500**	**22.54**
Outstanding as of January 1, 2022	121,900,000	24.53
Forfeited during the year	(1,200,000)	24.50
Outstanding as of December 31, 2022	120,700,000	24.53
Exercisable as of December 31, 2022	5,862,500	20.79

The weighted-average remaining contract life for outstanding share options was 6.69 years and 7.69 years as of December 31, 2023 and 2022, respectively.

Fair value of share options

The Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

2018 Share Award Scheme

RSUs granted to employees

Movements in the number of RSUs granted to the Company's employees under 2018 Share Award Scheme and the respective weighted average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (HK$)
Outstanding as of January 1, 2023	569,589,764	16.86
Granted during the year	238,816,959	11.69
Forfeited during the year	(61,701,292)	16.42
Transferred to Share Scheme Trust (Note 26(a)(a))	(132,509,721)	15.25
Outstanding as of December 31, 2023	614,195,710	15.24
Outstanding as of January 1, 2022	359,723,827	21.44
Granted during the year	366,319,134	12.80
Forfeited during the year	(74,782,454)	16.84
Transferred to Share Scheme Trust (Note 26(a)(a)) and others	(81,670,743)	18.86
Outstanding as of December 31, 2022	569,589,764	16.86

The weighted-average remaining contract life for outstanding RSUs was 8.38 years and 8.83 years as of December 31, 2023 and 2022, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

2023 Share Scheme

RSUs granted to employees

Movements in the number of RSUs granted to the Company's employees under 2023 Share Scheme and the respective weighted average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (HK$)
Outstanding as of January 1, 2023	—	—
Granted during the year	150,622,365	13.37
Forfeited during the year	(5,040,126)	12.83
Outstanding as of December 31, 2023	145,582,239	13.39

The weighted-average remaining contract life for outstanding RSUs was 9.64 years as of December 31, 2023.

The total expenses recognized in the consolidated income statement in connection with share options and RSUs granted to the Group's employees under all share-based payment schemes are RMB3,279,535,000 and RMB2,821,900,000 for the years ended December 31, 2023 and 2022, respectively.

Employee fund

On August 31, 2014, the Board of Directors of the Company approved the establishment of Employee Fund with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "**Lockup Period**"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of December 31, 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Employee fund (continued)

The total expenses recognized and reversed in the consolidated income statements for the Employee Fund granted to the Group's employees are RMB99,135,000 and RMB324,542,000 for the years ended December 31, 2023 and 2022, respectively.

Share based awards granted to Lei Jun

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. ("**Xiaomi Finance**") pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. No share option was exercised for the years ended December 31, 2023 and 2022, respectively.

30 Other non-current liabilities

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Liabilities to fund investors (Note (a))	13,803,045	14,859,228
Lease liabilities (Note 17)	1,256,155	1,464,736
Payable for purchase of intangible assets	2,768,401	—
Deferred government grants	2,115,561	61,004
Others	71,111	149,863
	20,014,273	16,534,831

Note:

(a) It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the "**Hubei Fund**") and Beijing Xiaomi Zhizao Equity Investment Fund Partners (Limited Partnership) (北京小米智造股權投資基金合夥企業(有限合夥)) (the "**Beijing Fund**"). The Group controls the Hubei Fund and the Beijing Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and the Beijing Fund, and has the ability to affect those returns through its power over the Hubei Fund and the Beijing Fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

30 Other non-current liabilities (continued)

Note (continued):

(a) (continued)

For the amount raised from limited partners of the Hubei Fund, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.

For the amount raised from limited partners of the Beijing Fund, the Group has contractual obligation to settle the liability with the limited partners and the management designates it as a financial liability measured at fair value through profit or loss in the consolidated financial statements.

31 Trade payables

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

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

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Up to 3 months	52,493,579	47,999,500
3 to 6 months	4,809,809	1,820,555
6 months to 1 year	3,039,535	2,172,721
1 to 2 years	1,001,272	855,854
Over 2 years	754,305	244,913
	62,098,500	53,093,543

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

32 Other payables and accruals

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Amounts collected for third parties	858,632	842,068
Payroll and welfare payables	3,120,400	2,535,922
Deposits payable	4,761,399	4,335,731
Employee Fund (Note 29)	864,840	811,018
Accrual expenses	2,742,593	1,752,006
Payables for construction cost	2,220,127	1,748,373
Payables for investments	41,325	93,866
Other taxes payables	1,648,291	886,005
Lease liabilities (Note 17)	712,011	947,392
Deposits from customers	1,519,475	1,607,408
Deferred government grants	2,771,695	1,169,511
Payables for purchase of intangible assets	2,390,221	—
Others	1,963,641	1,711,416
	25,614,650	18,440,716

The carrying amounts of other payables were primarily denominated in RMB and US$ and approximate their fair values as of December 31, 2023 and 2022.

33 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

Advance from customers mainly included contract liabilities, which are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2023, the total contract liabilities amounted to RMB12,612,179,000 (2022: RMB8,756,344,000), which will be recognized as revenue within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Included in non-current liabilities		
Secured borrowings	—	102,325
Unsecured borrowings (Note (a))	16,631,078	16,656,195
Convertible bonds (Note (b))	5,042,891	4,734,741
	21,673,969	21,493,261
Included in current liabilities		
Secured borrowings	—	3,283
Unsecured borrowings (Note (a))	6,183,376	2,147,458
	6,183,376	2,150,741

Notes:

(a) As of December 31, 2023, other than the interest rate of 49% (2022: 14.3%) for unsecured borrowings in Turkish Lira ("**TRY**") 200,000,000 (2022: TRY 189,466,000) which was equivalent to RMB48,102,000 (2022: RMB70,538,000), and the interest rate of 14.25% (2022: Nil) for unsecured borrowings in Russian Rouble ("**RUB**") 500,000,000 (2022: Nil), which was equivalent to RMB40,135,000 (2022: Nil), the interest rate of the remaining unsecured borrowings was 2.40% to 6.19% (2022: 2.10% to 4.10%) per annum.

(b) On December 17, 2020, the Group completed the issuance of 7-Year US$855,000,000 zero coupon guaranteed convertible bonds due on December 17, 2027 (the "**Bonds**") to third party professional investors (the "**bondholders**"). The bondholders have the right, at any time on or after January 27, 2021 up to the 10 days prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Group at a conversion price of HK$36.74 per share, subject to adjustments. The outstanding principal amount of the Bonds is repayable by the Group upon the maturity of the Bonds on December 17, 2027, if not previously redeemed, converted or purchased and cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings (continued)

Notes (continued):

(b) (continued):

The liability component of the Bonds recognized in the balance sheet are calculated as follows:

	RMB'000
Liability component as of January 1, 2023	**4,734,741**
Interest accrued	**226,884**
Effect of foreign currency translation	**81,266**
Liability component as of December 31, 2023	**5,042,891**
Liability component as of January 1, 2022	4,138,542
Interest accrued	206,933
Effect of foreign currency translation	389,266
Liability component as of December 31, 2022	4,734,741

The equity component of the Bonds of RMB1,764,799,000 was included in "Reserves" (Note 27) of the Group as of December 31, 2023 and 2022.

35 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

The amount of offsetting deferred income tax assets and liabilities is RMB497,823,000 as of December 31, 2023 (2022: RMB698,411,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	782,601	1,135,477
— to be recovered within 12 months	1,875,972	1,841,109
	2,658,573	2,976,586
Deferred income tax liabilities:		
— to be settled after 12 months	(1,957,295)	(1,646,852)
— to be settled within 12 months	(34,815)	(34,815)
	(1,992,110)	(1,681,667)

The gross movement on the deferred income tax assets is as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	2,561,062	1,853,918
Adjustment on amendment to IAS 12 (Note 2.1 (a))	415,524	555,070
At the beginning of the year (Restated)	2,976,586	2,408,988
(Debited)/credited to the consolidated income statement	(318,013)	567,598
At the end of the year	2,658,573	2,976,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Deferred income taxes (continued)

The gross movement on the deferred income tax liabilities is as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
At the beginning of the year	(1,266,143)	(1,394,688)
Adjustment on amendment to IAS 12 (Note 2.1 (a))	(415,524)	(555,070)
At the beginning of the year (Restated)	(1,681,667)	(1,949,758)
(Debited)/credited to the consolidated income statement	(310,443)	268,091
At the end of the year	(1,992,110)	(1,681,667)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Accrued liabilities and provisions RMB'000	Provision for impairment of inventories RMB'000	Depreciation of property, plant and equipment and amortization of intangible assets RMB'000	Tax losses RMB'000	Fair value changes of financial assets RMB'000	Credit loss allowance RMB'000	Unrealized gain on intra-group transactions RMB'000	Lease RMB'000	Others RMB'000	Total RMB'000
At January 1, 2023	686,101	491,545	43,176	452,826	89,846	41,439	622,024	47,912	86,193	2,561,062
Adjustment on amendment to IAS 12 (Note 2.1 (a))	–	–	–	–	–	–	–	415,524	–	415,524
At January 1, 2023 (Restated)	686,101	491,545	43,176	452,826	89,846	41,439	622,024	463,436	86,193	2,976,586
Credited/(debited) to consolidated income statement	219,910	(124,442)	(12,950)	(240,019)	33,269	35,275	(95,880)	(144,119)	10,943	(318,013)
At December 31, 2023	906,011	367,103	30,226	212,807	123,115	76,714	526,144	319,317	97,136	2,658,573
At January 1, 2022	432,232	237,069	45,146	318,964	82,770	171,181	473,912	13,207	79,437	1,853,918
Adjustment on amendment to IAS 12 (Note 2.1 (a))	–	–	–	–	–	–	–	555,070	–	555,070
At January 1, 2022 (Restated)	432,232	237,069	45,146	318,964	82,770	171,181	473,912	568,277	79,437	2,408,988
Credited/(debited) to consolidated income statement	253,869	254,476	(1,970)	133,862	7,076	(129,742)	148,112	(104,841)	6,756	567,598
At December 31, 2022	686,101	491,545	43,176	452,826	89,846	41,439	622,024	463,436	86,193	2,976,586

Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 Deferred income taxes (continued)

As of December 31, 2023, the Group did not recognize deferred income tax assets of RMB3,262,716,000 (2022: RMB1,365,921,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB18,415,305,000 (2022: RMB6,855,803,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2023 amounting to RMB2,343,293,000 (2022: RMB1,838,100,000) can be carried forward indefinitely, and the remaining amount of RMB15,477,728,000 (2022: RMB4,018,848,000) will expire within 11 years (2022: 12 years).

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities:

	Fair value changes of financial assets RMB'000	Depreciation of property, plant and equipment and amortization of intangible assets RMB'000	Unrealized exchange gain/(loss) RMB'000	Business combination RMB'000	Lease RMB'000	Others RMB'000	Total RMB'000
At January 1, 2023	**(773,742)**	**(147,944)**	**(140,282)**	**(188,473)**	**(15,465)**	**(237)**	**(1,266,143)**
Adjustment on amendment to IAS 12 (Note 2.1 (a))	**—**	**—**	**—**	**—**	**(415,524)**	**—**	**(415,524)**
At January 1, 2023 (Restated)	**(773,742)**	**(147,944)**	**(140,282)**	**(188,473)**	**(430,989)**	**(237)**	**(1,681,667)**
(Debited)/credited to consolidated income statement	**(704,121)**	**29,237**	**140,282**	**34,814**	**189,430**	**(85)**	**(310,443)**
At December 31, 2023	**(1,477,863)**	**(118,707)**	**—**	**(153,659)**	**(241,559)**	**(322)**	**(1,992,110)**
At January 1, 2022	(1,105,849)	(62,594)	—	(223,353)	(2,892)	—	(1,394,688)
Adjustment on amendment to IAS 12 (Note 2.1 (a))	—	—	—	—	(555,070)	—	(555,070)
At January 1, 2022 (Restated)	(1,105,849)	(62,594)	—	(223,353)	(557,962)	—	(1,949,758)
Credited/(debited) to consolidated income statement	332,107	(85,350)	(140,282)	34,880	126,973	(237)	268,091
At December 31, 2022	(773,742)	(147,944)	(140,282)	(188,473)	(430,989)	(237)	(1,681,667)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 Cash flow information

(a) Cash generated from/(used in) operations

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Profit before income tax	**22,011,047**	3,933,956
Adjustments for:		
— Depreciation of property, plant and equipment, right-of-use assets and investment properties	**2,401,979**	2,310,951
— Amortization of intangible assets	**2,434,308**	1,396,442
— Gain on disposal of property, plant and equipment	**(12,510)**	(6,887)
— Credit loss allowance	**321,528**	217,971
— Provision for impairment of inventories	**3,861,753**	7,794,470
— Impairment provision for investments accounted for using the equity method (Note 8)	**7,138**	450,948
— Interest income	**(3,558,347)**	(1,663,941)
— Interest expense	**1,555,970**	546,483
— Dividend income	**(157,569)**	(125,299)
— Share of net (profits)/losses of investments accounted for using the equity method	**(45,615)**	400,100
— Gains on disposal and deemed disposal of investments accounted for using the equity method	**(1,580,123)**	(127,310)
— Loss on disposal of a subsidiary	**—**	(458)
— Fair value changes on financial instruments measured at fair value through profit or loss	**(3,501,053)**	1,662,010
— Share-based compensation	**3,378,670**	2,497,358
— Foreign exchange (gains)/losses, net	**(124,405)**	998,602
Operating cash flows before changes in working capital		
— Decrease/(increase) in inventories	**2,173,795**	(5,448,990)
— (Increase)/decrease in trade receivables	**(1,652,782)**	4,346,873
— Increase in loan receivables	**(1,983,565)**	(2,545,224)
— (Increase)/decrease in prepayments and other receivables	**(2,426,241)**	1,444,782
— (Increase)/decrease in restricted cash	**(659,788)**	350,688
— Increase/(decrease) in trade payables	**11,147,623**	(20,514,286)
— Increase in advance from customers	**4,026,797**	298,782
— Increase in warranty provision	**1,537,927**	1,311,348
— Increase/(decrease) in other payables and accruals	**3,101,149**	(540,598)
— Increase in other non-current liabilities	**2,054,557**	41,776
Cash generated from/(used in) operations	**44,312,243**	(969,453)

36 Cash flow information (continued)

(b) Non-cash investing and financing transactions

Other than addition of right-of-use assets and lease liabilities described in Note 17, transfer of investments accounted for using the equity method to financial assets at fair value through profit or loss as described in Note 12(b) and Note 20, addition of intangible assets in Note 16 with increase of payables for purchase of intangible assets in Note 30 and Note 32, addition of property, plant and equipment in Note 15 with payables for purchase of property, plant and equipment in Note 32, there were no material non-cash investing and financing transactions for the years ended December 31, 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 Cash flow information (continued)

(c) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities					
	Borrowing RMB'000	Interest payable RMB'000	Liabilities to fund investors RMB'000	Lease liabilities RMB'000	Payables for purchase of intangible assets RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2023	23,644,002	157,830	14,859,228	2,412,128	—	41,073,188
Cash flows	4,262,857	(177,329)	(1,467,129)	(1,197,692)	(1,393,188)	27,519
Accrued interest expenses	839,025	193,288	405,724	83,117	39,535	1,560,689
Foreign exchange adjustments	271,122	—	—	—	—	271,122
Other non-cash movements (Note (a))	(1,159,661)	(164,158)	5,222	670,613	6,512,275	5,864,291
Liabilities from financing activities as of December 31, 2023	27,857,345	9,631	13,803,045	1,968,166	5,158,622	48,796,809
Liabilities from financing activities as of January 1, 2022	26,246,840	146,651	14,892,666	3,281,154	—	44,567,311
Cash flows	(2,791,338)	(1,020,229)	550,424	(1,281,785)	—	(4,542,928)
Accrued interest expenses	—	1,031,408	(583,862)	101,484	—	549,030
Foreign exchange adjustments	1,738,062	—	—	—	—	1,738,062
Other non-cash movements (Note (a))	(1,549,562)	—	—	311,275	—	(1,238,287)
Liabilities from financing activities as of December 31, 2022	23,644,002	157,830	14,859,228	2,412,128	—	41,073,188

Notes:

(a) It mainly resulted from the addition of payables for purchase of intangible assets, the addition of leases and the maturity of discounted commercial bill acceptance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

37 Contingencies

The Group, in the ordinary course of its business, is involved in various claims, suits, and legal proceedings that arise from time to time. Since December 2021, Xiaomi 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 (the "**ED**") in relation to compliance of relevant income tax regulations, custom duties regulations as well as foreign exchange regulations, respectively.

In this connection, Xiaomi India received orders alleging that it has inappropriately deducted certain costs and expenses, including purchase costs of mobile phones and royalty fees paid to overseas third parties as well as companies within the Group. As a result, certain of its bank accounts has been attached and thereby INR45,321,947,000 (equivalent to RMB3,874,120,000) has been considered as restrictive as of December 31, 2023. The cases are currently in the hearing stages and not yet concluded.

Management assessed the aforesaid matters related to Xiaomi India, after taking into considerations of opinions from professional advisors, it is concluded that Xiaomi India has valid grounds to respond to the relevant Indian authorities. The Group, hence, has not made any provision as of December 31, 2023 pertaining to these matters.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Property, plant and equipment	1,068,216	2,366,080
Intangible assets	5,932	1,165,439
Investments	857,726	882,374
	1,931,874	4,413,893

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group has recognized right-of-use assets and lease liabilities for these leases, except for certain short-term leases, variable lease payments and leases contracted but before the commencement date as shown in the table below, see Note 17 for further information. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
Not later than 1 year	278,368	289,127
Later than 1 year and not later than 5 years	550,153	681,126
Later than 5 years	825,079	855,925
	1,653,600	1,826,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the years presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Significant transactions with related parties

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
(i) Sales of goods and services		
Associates of the Group	349,954	1,413,135
Associates of Lei Jun	47,254	2,251
	397,208	1,415,386
(ii) Purchases of goods and services		
Associates of the Group	32,017,985	37,142,979
Associates of Lei Jun	4,891	2,741
	32,022,876	37,145,720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(b) Year end balances with related parties

	As of December 31,	
	2023	2022
	RMB'000	RMB'000
(i) Trade receivables from related parties		
Associates of the Group	133,432	292,583
Associates of Lei Jun	2,921	3,001
	136,353	295,584
(ii) Trade payables to related parties		
Associates of the Group	9,698,412	7,171,035
Associates of Lei Jun	2,572	1,767
	9,700,984	7,172,802
(iii) Prepayments and other receivables from related parties		
Associates of the Group	251,536	454,796
Associates of Lei Jun	37,478	71,783
	289,014	526,579
(iv) Other payables and accruals to related parties		
Associates of the Group	78,141	85,431
Associates of Lei Jun	82,799	86,461
	160,940	171,892
(v) Advance from customers		
Associates of the Group	65,271	37,838
Associates of Lei Jun	10,570	80
	75,841	37,918

All the balances with related parties above were unsecured, non-interest bearing and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(c) Loans to related parties

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Loans to associates:		
At the beginning of the year	1,936	1,682
Loans advanced	50,000	80,940
Loans repaid	(2,761)	(47,393)
Interest charged	424	(182)
Less: credit loss allowance	757	(43,616)
Currency translation differences	68	10,505
At the end of the year	50,424	1,936

(d) Key management compensation

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Salaries	20,557	32,831
Discretionary bonuses	7,140	2,477
Share-based compensation	384,205	399,465
Employer's contribution to pension schedule	1,821	1,576
	413,723	436,349

40 Events after the reporting period

The Company repurchased 138,100,000 Class B ordinary shares of the Company during January and February 2024. The total considerations were approximately HK$1,857,651,730. And the shares repurchased were subsequently cancelled on March 14, 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31, 2023 RMB'000	As of December 31, 2022 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	60	245
Investment in subsidiaries	41,000,871	36,687,166
Investment accounted for using the equity method	426,827	837,433
Other assets	79	78
	41,427,837	37,524,922
Current assets		
Prepayments and other receivables	24,466,383	25,768,288
Cash and cash equivalents	453,104	228,538
	24,919,487	25,996,826
Total assets	66,347,324	63,521,748
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	407	406
Reserves (Note 41(b))	62,775,595	60,673,864
Total equity	62,776,002	60,674,270
Liabilities		
Current liabilities		
Other payables and accruals	3,571,322	2,847,478
Total liabilities	3,571,322	2,847,478
Total equity and liabilities	66,347,324	63,521,748

The balance sheet of the Company was approved by the Board of Directors on March 19, 2024 and was signed on its behalf:

Lei Jun   Lin Bin

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2023	(190,795)	59,483,288	7,491,132	2,154,679	318,783	(10,338,813)	1,764,799	(9,209)	60,673,864
Loss for the year	–	–	–	–	–	(470,182)	–	–	(470,182)
Purchase of own shares	(1,485,385)	–	–	–	–	–	–	–	(1,485,385)
Cancellation of shares	1,216,644	(1,216,642)	–	–	–	–	–	–	2
Release of ordinary shares from Share Scheme Trust	21,245	1,788,344	(1,805,864)	–	–	–	–	–	3,725
Employees share-based compensation scheme:									
– value of employee services (Note 29)	–	–	3,240,396	–	–	–	–	–	3,240,396
– exercise of share options and RSUs (Note 29)	–	658,545	(580,578)	–	–	–	–	–	77,967
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–	–	–	2,046	2,046
Share of other reserves of investments accounted for using the equity method	–	–	–	–	(1,157)	–	–	–	(1,157)
Share consideration for acquisition of Zimi completed in 2021	–	64,752	–	–	(64,752)	–	–	–	–
Currency translation differences (Note (a))	–	–	–	734,319	–	–	–	–	734,319
At December 31, 2023	(438,291)	60,778,287	8,345,086	2,888,998	252,874	(10,808,995)	1,764,799	(7,163)	62,775,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company (continued)

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2022	(343,730)	59,717,626	6,797,476	(1,566,437)	367,725	(9,725,539)	1,764,799	(93,408)	56,918,512
Loss for the year	–	–	–	–	–	(613,274)	–	–	(613,274)
Purchase of own shares	(2,386,143)	–	–	–	–	–	–	–	(2,386,143)
Cancellation of shares	2,539,078	(2,539,074)	–	–	–	–	–	–	4
Release of ordinary shares from Share Scheme Trust	–	1,315,868	(1,307,612)	–	–	–	–	–	8,256
Employees share-based compensation scheme:									
– value of employee services (Note 29)	–	–	2,794,273	–	–	–	–	–	2,794,273
– exercise of share options and RSUs (Note 29)	–	890,469	(793,005)	–	–	–	–	–	97,464
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–	–	–	84,199	84,199
Share of other reserves of investments accounted for using the equity method	–	–	–	–	49,457	–	–	–	49,457
Share consideration for acquisition of Zimi completed in 2021	–	98,399	–	–	(98,399)	–	–	–	–
Currency translation differences (Note (a))	–	–	–	3,721,116	–	–	–	–	3,721,116
At December 31, 2022	(190,795)	59,483,288	7,491,132	2,154,679	318,783	(10,338,813)	1,764,799	(9,209)	60,673,864

Note:

(a) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.

DEFINITIONS

"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Articles" or "Articles of Association"	the articles of association of the Company adopted on June 17, 2018 with effect from Listing and amended on June 2, 2022
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Auditor"	PricewaterhouseCoopers, the external auditor of the Company
"Beijing Digital Technology"	Beijing Xiaomi Digital Technology Co., Ltd.* (北京小米數碼科技有限公司), a limited liability company established under the laws of mainland China on December 21, 2010 and our indirect wholly-owned subsidiary
"Beijing Duokan"	Beijing Duokan Technology Co., Ltd.* (北京多看科技有限公司), a limited liability company established under the laws of mainland China on February 10, 2010 and our Consolidated Affiliated Entity
"Beijing Electronic Software"	Beijing Xiaomi Electronic Software Co., Ltd.* (北京小米電子軟件技術有限公司), a limited liability company established under the laws of mainland China on July 1, 2014 and our Consolidated Affiliated Entity
"Beijing Wali Culture"	Beijing Wali Culture Communication Co., Ltd.* (北京瓦力文化傳播有限公司), a limited liability company established under the laws of mainland China on May 8, 2014 and our Consolidated Affiliated Entity
"Beijing Wali Internet"	Beijing Wali Internet Technologies Co., Ltd.* (北京瓦力網絡科技有限公司), a limited liability company established under the laws of mainland China on June 1, 2009 and our Consolidated Affiliated Entity
"Beijing Wenmi"	Beijing Wenmi Culture Co., Ltd* (北京文米文化有限公司), a limited liability company established under the laws of mainland China on December 28, 2016 and our wholly-owned subsidiary

"Board"	our Board of Directors
"CEO"	chief executive officer
"CFO"	chief financial officer
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix C1 of the Listing Rules
"Class A Shares"	class A ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company's general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
"Class B Shares"	class B ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meetings
"Co-founder"	Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", or "the Company"	Xiaomi Corporation 小米集团 (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010
"Compliance Advisor"	Guotai Junan Capital Limited, being the compliance advisor of the Company
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

"Consolidated Affiliated Entities", each a "Consolidated Affiliated Entity"	the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries
"Contractual Arrangements"	the set of agreements that entered into by each of the WFOEs and the Onshore Holdcos for the purpose of operations of the Restricted Business of the Group in the PRC
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an interested in the Company, namely, Smart Mobile Holdings Limited and Smart Player Limited
"Director(s)"	the director(s) of the Company
"Group", "our Group", or "the Group"	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements) from time to time
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRS"	International Financial Reporting Standard
"Latest Practicable Date"	April 8, 2024, being the latest practicable date prior to the bulk printing and publication of this annual report
"Listing"	the listing of the Class B Shares on the Main Board of the Stock Exchange
"Listing Date"	July 9, 2018, the date on which the Shares were listed on the Stock Exchange

"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 of the Listing Rules
"Onshore Holdcos" each a "Onshore Holdco"	(i) Beijing Wali Culture, (ii) Rigo Design, (iii) Xiaomi Inc., (iv) Beijing Duokan, (v) Beijing Wali Internet, (vi) Xiaomi Pictures, (vii) Beijing Electronic Software and (viii) Youpin Information Technology
"PRC"	the People's Republic of China
"PRC Legal Advisor"	JunHe LLP
"Pre-IPO ESOP"	the pre-IPO employee stock incentive scheme adopted by the Company on May 5, 2011 and superseded on August 24, 2012 as amended from time to time
"Prospectus"	the prospectus of the Company dated June 25, 2018
"Registered Shareholders"	the registered shareholders of the Onshore Holdcos
"Reporting Period"	the year ended December 31, 2023
"Reserved Matters"	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company's auditors, and (iv) the voluntary liquidation or winding-up of the Company

DEFINITIONS

"Rigo Design"	Rigo Design (Beijing) Co., Ltd.* (美卓軟件設計（北京）有限公司), a limited liability company established under the laws of mainland China on April 24, 2012 and our Consolidated Affiliated Entity
"RMB" or "Renminbi"	Renminbi, the lawful currency of mainland China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"Tianjin Commercial Factoring"	Xiaomi Commercial Factoring (Tianjin) Co., Ltd* (小米商業保理（天津）有限責任公司), a limited liability company established under the laws of mainland China on March 21, 2018 and our indirect wholly-owned subsidiary
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"weighted voting rights" or "WVR"	has the meaning ascribed to it in the Listing Rules

"WFOEs", each a "WFOE"	Beijing Baien, Xiaomi Mobile Software, Beijing Wenmi, Beijing Digital Technology, Tianjin Commercial Factoring, Beijing Wali, Xiaomi Communications and Xiaomi Youpin Technology
"WVR Beneficiary"	has the meaning ascribed to it in the Listing Rules
"Xiaomi Communications"	Xiaomi Communications Co., Ltd* (小米通訊技術有限公司), a limited liability company established under the laws of mainland China on August 25, 2010 and our indirect wholly-owned subsidiary
"Xiaomi EV"	Xiaomi EV, Inc., an exempted company incorporated under the laws of the Cayman Islands with limited liability and a direct wholly-owned Subsidiary of the Company
"Xiaomi Finance"	Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 15, 2018 and our direct wholly-owned subsidiary
"Xiaomi Finance Group"	Xiaomi Finance and its subsidiaries and consolidated affiliated entities from time to time
"Xiaomi Inc."	Xiaomi Inc.* (小米科技有限責任公司), a limited liability company established under the laws of mainland China on March 3, 2010 and our Consolidated Affiliated Entity
"Xiaomi Pictures"	Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity
"Xiaomi Youpin Technology"	Xiaomi Youpin Technology Co. Ltd.* (小米有品科技有限公司), a limited liability company established under the laws of mainland China on May 8, 2018 and our indirect wholly-owned subsidiary

DEFINITIONS

"XMF Share Option Scheme I"	the first share option scheme adopted by Xiaomi Finance on June 17, 2018, as amended from time to time
"XM Group"	our Group other than the Xiaomi Finance Group
"Youpin Information Technology"	Youpin Information Technology Co., Ltd.* (有品信息科技有限公司), a limited liability company established under the laws of mainland China on April 4, 2018 and our Consolidated Affiliated Entity
"2018 Share Award Scheme"	the share award scheme adopted by the Company on June 17, 2018
"2018 Share Option Scheme"	the share option scheme adopted by the Company on June 17, 2018
"2023 Share Scheme"	the share scheme adopted by the Company on June 8, 2023
"%"	per cent

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