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XIAOMI CORPORATION

小米集团

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

(Stock Code: 1810)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Xiaomi Corporation 小米集团 (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2020 (the “**Reporting Period**”). The consolidated financial statements for the Reporting Period have been audited by PricewaterhouseCoopers, the independent auditor of the Company (the “**Auditor**”) in accordance with International Standards on Auditing. The results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

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

KEY HIGHLIGHTS

	Unaudited		
	Three months ended		
	December 31,	December 31,	Year-on-
	2020	2019	year change
	(Renminbi (“RMB”) in millions, unless specified)		
Revenue	70,462.9	56,469.7	24.8%
Gross profit	11,326.3	7,843.3	44.4%
Operating profit	9,601.9	2,697.1	256.0%
Profit before income tax	8,860.9	2,716.3	226.2%
Profit for the period	8,795.0	2,436.2	261.0%
Non-IFRS Measure: Adjusted net profit	3,204.4	2,344.4	36.7%

	Year ended December 31,		
	2020	2019	Year-on- year change
	(RMB in millions, unless specified)		
Revenue	245,865.6	205,838.7	19.4%
Gross Profit	36,751.8	28,554.1	28.7%
Operating Profit	24,034.7	11,760.2	104.4%
Profit before income tax	21,633.4	12,162.6	77.9%
Profit for the year	20,312.7	10,102.9	101.1%
Non-IFRS Measure: Adjusted net profit	13,006.4	11,532.3	12.8%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

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

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

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

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

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

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

2. Smartphones

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

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

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

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

3. IoT and lifestyle products

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

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

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

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

We devoted more resources to IoT products that enhance interconnectivity in the smart home and continued to introduce products that were well-received by the market. In 2020, global shipments of our AI speakers exceeded 10 million units while those of our WiFi routers exceeded 15 million units. According to AVC, in the fourth quarter of 2020, our AI speaker ranked 2nd in terms of retail sales volume in mainland China with a market share of 29.4%. Our routers also ranked 2nd in terms of online retail sales volume in mainland China, with a market share of 20.6%. In December 2020, we launched *Mi AIoT Router AX6000*, featuring enhanced WiFi6 technology. With prices starting from RMB599, this device is equipped with “Xiaomi Mesh Networking” and “Xiaomi Express Connect”, which further strengthened interconnectivity among our IoT products.

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

4. Internet services

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

In 2020, our global internet user base continued to grow rapidly. In December 2020, the MAU of MIUI increased by 28.0% year-over-year to 396.3 million, while the MAU of MIUI in mainland China reached 111.0 million. In January 2021, the MAU of MIUI in mainland China further climbed to 114.5 million as our mainland China smartphone shipments continued to grow. At the same time, our TV internet users continued to expand rapidly. In December 2020, MAU of our smart TVs and *Mi Box* reached 40.9 million, representing an increase of 48.0% year-over-year. As of December 31, 2020, the number of TV paid subscribers increased by 14.4% year-over-year to 4.3 million.

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

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

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

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

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

5. Overseas markets

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

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

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

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

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

6. Strategic updates

Smartphone x AIoT

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

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

Offline retail channel expansion

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

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

Focus on User Experience

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

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

Investment in Technology

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

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

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

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

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

Investments

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

Our Pledge

Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. In order to achieve this, as approved by our Board in May 2018, we pledged to our existing and potential users that starting from 2018, the Xiaomi Hardware Business (“**HB**”), including smartphones and IoT and lifestyle products would have an overall net profit margin that would not exceed 5.0% per year. If the net margin exceeds 5.0%, we will return the excess above 5.0% to our users. In 2020, our hardware business was profitable with an overall net margin of less than 1%, fulfilling our pledge. (For the definition of hardware business net margin, please refer to Hardware Business Net Margin.)

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

Revenue

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

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

Smartphones

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

IoT and lifestyle products

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

Internet services

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

Others

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

Cost of Sales

Our cost of sales increased by 18.0% from RMB177.3 billion for the year ended December 31, 2019 to RMB209.1 billion for the Reporting Period. The following table sets forth our cost of sales by line of business for the Reporting Period and the year ended December 31, 2019:

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

Smartphones

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

IoT and lifestyle products

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

Internet services

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

Others

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

Gross Profit and Margin

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

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

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

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

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

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

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

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

Other Income

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

Other Losses, Net

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

Finance (Expenses)/Income, Net

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

Income Tax Expenses

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

Profit for the Year

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

Fourth Quarter of 2020 Compared to Fourth Quarter of 2019

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

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

Revenue

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

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

Smartphones

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

IoT and lifestyle products

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

Internet services

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

Others

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

Cost of Sales

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

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

Smartphones

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

IoT and lifestyle products

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

Internet services

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

Others

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

Gross Profit and Margin

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

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

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

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

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

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

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

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

Other Income

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

Other Gains/(Losses), Net

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

Finance (Expenses)/Income, Net

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

Income Tax Expenses

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

Profit for the Period

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

Fourth Quarter of 2020 Compared to Third Quarter of 2020

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

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

Revenue

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

	Unaudited			
	December 31, 2020		September 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
Smartphones	42,634.5	60.5%	47,604.1	66.0%
IoT and lifestyle products	21,054.4	29.9%	18,119.0	25.1%
Internet services	6,175.1	8.8%	5,771.9	8.0%
Others	598.9	0.8%	667.8	0.9%
Total revenue	<u>70,462.9</u>	<u>100.0%</u>	<u>72,162.8</u>	<u>100.0%</u>

Smartphones

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

IoT and lifestyle products

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

Internet services

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

Others

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

Cost of Sales

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

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

Smartphones

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

IoT and lifestyle products

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

Internet services

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

Others

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

Gross Profit and Margin

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

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

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

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

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

Our fair value changes on investments measured at fair value through profit or loss increased by 106.0% from a gain of RMB3.4 billion in the third quarter of 2020 to a gain of RMB7.0 billion in the fourth quarter of 2020, primarily due to the increase in fair value gains of the equity and preferred share investments in the fourth quarter of 2020.

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

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

Other Income

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

Other Gains/(Losses), Net

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

Finance Expenses, Net

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

Income Tax Expenses

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

Profit for the Period

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

Non-IFRS Measure: Adjusted Net Profit

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

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

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

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

Unaudited
Three Months Ended December 31, 2020

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(RMB in thousand, unless specified)							
Profit for the period	8,794,995	660,624	(7,108,419)	79	864,430	(7,318)	3,204,391
Net margin	12.5%						4.5%

Unaudited
Three Months Ended September 30, 2020

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(RMB in thousand, unless specified)							
Profit for the period	4,864,348	579,192	(2,557,510)	79	1,352,516	(110,362)	4,128,263
Net margin	6.7%						5.7%

Unaudited
Three Months Ended December 31, 2019

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(RMB in thousand, unless specified)							
Profit for the period	2,436,219	597,150	(959,935)	79	190,298	80,595	2,344,406
Net margin	4.3%						4.2%

Year Ended December 31, 2020

	Adjustments						Non-IFRS
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	
	(RMB in thousand, unless specified)						
Profit for the year	20,312,710	2,328,319	(12,187,807)	316	2,892,323	(339,498)	13,006,363
Net margin	8.3%						5.3%

Year Ended December 31, 2019

	Adjustments						Non-IFRS
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	
	(RMB in thousand, unless specified)						
Profit for the year	10,102,950	2,201,722	(888,284)	1,704	250,706	(136,502)	11,532,296
Net margin	4.9%						5.6%

Notes:

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

Hardware Business Net Margin

HB overall net profit margin rate¹ = 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:

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

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 places who and whose ultimate beneficial owner(s) are independent third parties and allotted and issued 1,000,000,000 subscription shares at HK\$23.70 per subscription share under the general mandate to Smart Mobile Holdings (the “**2020 Placing and Subscription**”). For further details, please refer to the Company’s announcements dated December 2, 2020, December 3, 2020 and December 9, 2020.

Other than the funds raised through our Global Offering in July 2018, the 2020 Placing and Subscription and the issuance of debt securities as described in “Issuance of Debt Securities” below, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB54.8 billion and RMB30.3 billion as of December 31, 2020 and September 30, 2020, respectively.

Note:

The cash resources which the Group considered in cash management including but not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss and long-term bank deposits. As of December 31, 2020, the aggregate amount of cash resources of the Group was RMB108.0 billion.

Our gearing ratio was -44.5% and -88.9%, which represented a net cash position, as of September 30, 2020 and December 31, 2020, respectively. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings less our cash and cash equivalents, restricted cash and short-term bank deposits. Total capital is calculated as total equity plus net debt.

Issuance of Debt Securities

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

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

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

Consolidated Statement of Cash Flows

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

Note:

- (1) Excluding (1) the decrease in loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the increase in trade payables resulting from the finance factoring business; (3) the decrease in restricted cash resulting from the fintech business; and (4) the increase in deposits from customers resulting from the Airstar bank, the net cash generated from operating activities was RMB11.9 billion in the fourth quarter of 2020 and RMB9.5 billion in the third quarter of 2020, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB23.4 billion in the fourth quarter of 2020 and the net cash generated from financing activities was RMB1.0 billion in the third quarter of 2020, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group’s auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Generated From Operating Activities

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

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

Net Cash Used In Investing Activities

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

Net Cash Generated From Financing Activities

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

Borrowings

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

Capital Expenditure

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

Note:

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

Off-Balance Sheet Commitments and Arrangements

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

Future Plans for Material Investments and Capital Assets

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

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

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

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

Employee and Remuneration Policy

As of December 31, 2020, we had 22,074 full-time employees, 20,418 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. We expect to continue to increase our headcount in mainland China and our key target global markets. As of December 31, 2020, our research and development personnel, totaling 10,401 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of December 31, 2020, 15,363 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the Reporting Period were RMB9,914.5 million, representing an increase of 19.4% from the year ended December 31, 2019 of RMB8,304.9 million.

Foreign Exchange Risk

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

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

Pledge of Assets

As of December 31, 2020, we pledged a restricted deposit of RMB3,625.3 million, compared with RMB3,257.4 million as of September 30, 2020. We also had secured certain construction in progress and land use right for borrowings.

Contingent Liabilities

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

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2020

(Expressed in Renminbi (“RMB”))

	Note	Year ended December 31,	
		2020	2019
		RMB'000	RMB'000
Revenue	2	245,865,633	205,838,682
Cost of sales	3	(209,113,771)	(177,284,649)
Gross profit		36,751,862	28,554,033
Selling and marketing expenses	3	(14,539,400)	(10,378,073)
Administrative expenses	3	(3,746,449)	(3,103,901)
Research and development expenses	3	(9,256,139)	(7,492,554)
Fair value changes on investments measured at fair value through profit or loss	6	13,173,479	3,813,012
Share of gains/(losses) of investments accounted for using the equity method		1,380,904	(671,822)
Other income		642,930	1,265,921
Other losses, net		(372,458)	(226,399)
Operating profit		24,034,729	11,760,217
Finance income		963,555	930,889
Finance costs		(3,364,852)	(528,460)
Profit before income tax		21,633,432	12,162,646
Income tax expenses	4	(1,320,722)	(2,059,696)
Profit for the year		20,312,710	10,102,950
Attributable to:			
— Owners of the Company		20,355,504	10,044,164
— Non-controlling interests		(42,794)	58,786
		20,312,710	10,102,950
Earnings per share (expressed in RMB per share):	5		
Basic		0.849	0.423
Diluted		0.825	0.410

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

(Expressed in RMB)

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

CONSOLIDATED BALANCE SHEET

As of December 31, 2020

(Expressed in RMB)

	Note	As of December 31,	
		2020	2019
		RMB'000	RMB'000
Assets			
Non-current assets			
Property and equipment		6,305,657	6,992,331
Intangible assets		4,265,619	1,672,002
Investments accounted for using the equity method		12,781,995	9,300,507
Long-term investments measured at fair value through profit or loss	6	35,215,319	20,679,363
Deferred income tax assets		2,011,072	1,283,415
Long-term bank deposits		9,608,677	590,157
Long-term investments measured at amortized cost	6	232,798	—
Other non-current assets		6,975,851	5,572,346
		<u>77,396,988</u>	<u>46,090,121</u>
Current assets			
Inventories	8	41,670,719	32,585,438
Trade receivables	7	10,161,019	6,948,567
Loan receivables		8,919,088	12,723,503
Prepayments and other receivables		16,181,520	19,837,018
Bills receivables measured at fair value through other comprehensive income		200,000	—
Short-term investments measured at fair value through other comprehensive income	6	797,456	—
Short-term investments measured at fair value through profit or loss	6	22,376,387	16,463,390
Short-term bank deposits		17,598,946	21,523,043
Restricted cash		3,625,257	1,538,266
Cash and cash equivalents		54,752,443	25,919,861
		<u>176,282,835</u>	<u>137,539,086</u>
Total assets		<u><u>253,679,823</u></u>	<u><u>183,629,207</u></u>

	Note	As of December 31,	
		2020	2019
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		409	388
Reserves		123,691,287	81,330,186
		<u>123,691,696</u>	<u>81,330,574</u>
Non-controlling interests		<u>321,819</u>	<u>327,102</u>
Total equity		<u><u>124,013,515</u></u>	<u><u>81,657,676</u></u>
Liabilities			
Non-current liabilities			
Borrowings	9	10,634,806	4,786,856
Deferred income tax liabilities		300,556	579,902
Warranty provision		802,590	667,857
Other non-current liabilities		10,001,428	3,756,211
		<u>21,739,380</u>	<u>9,790,826</u>
Current liabilities			
Trade payables	10	72,198,856	59,527,940
Other payables and accruals		13,619,655	9,101,343
Advance from customers		11,999,086	8,237,119
Borrowings	9	6,961,937	12,836,555
Income tax liabilities		674,298	479,350
Warranty provision		2,473,096	1,998,398
		<u>107,926,928</u>	<u>92,180,705</u>
Total liabilities		<u><u>129,666,308</u></u>	<u><u>101,971,531</u></u>
Total equity and liabilities		<u><u>253,679,823</u></u>	<u><u>183,629,207</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

(Expressed in RMB)

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net cash generated from operating activities	21,878,500	23,810,354
Net cash used in investing activities	(17,678,852)	(31,570,136)
Net cash generated from financing activities	26,215,568	3,121,238
Net increase/(decrease) in cash and cash equivalents	30,415,216	(4,638,544)
Cash and cash equivalents at the beginning of the year	25,919,861	30,230,147
Effects of exchange rate changes on cash and cash equivalents	(1,582,634)	328,258
Cash and cash equivalents at the end of the year	54,752,443	25,919,861

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”) and disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets which are carried at fair value.

(a) New and amended standards adopted by the Group

The following new and amended standards, and annual improvements are mandatory for the first time for the Group’s financial year beginning on January 1, 2020 and are applicable for the Group:

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

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

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Segment information

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

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

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

The segment results for the years ended December 31, 2020 and 2019 are as follows:

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

	Year ended December 31, 2019				Total RMB'000
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	
Segment revenues	122,094,897	62,087,998	19,841,569	1,814,218	205,838,682
Cost of sales	(113,335,546)	(55,134,299)	(6,998,096)	(1,816,708)	(177,284,649)
Gross profit/(loss)	8,759,351	6,953,699	12,843,473	(2,490)	28,554,033

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

For the years ended December 31, 2020 and 2019, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2020		2019	
	RMB'000	%	RMB'000	%
Mainland China	123,484,251	50.2	114,608,633	55.7
Rest of the world (Note(a))	122,381,382	49.8	91,230,049	44.3
	<u>245,865,633</u>		<u>205,838,682</u>	

Note:

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

3 Expenses by nature

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Cost of inventories sold	185,753,174	157,935,754
Provision for impairment of inventories	3,688,809	3,859,675
Royalty fees	6,687,263	5,042,116
Employee benefit expenses	9,914,453	8,304,928
Depreciation of property and equipment, right-of-use assets and investment properties	1,042,895	895,273
Amortization of intangible assets	665,566	485,786
Promotion and advertising expenses	5,477,287	3,355,201
Content fees to game developers and video providers	2,418,008	1,754,622
Credit loss allowance for loan receivables	1,757,680	1,015,619
Consultancy and professional service fees	980,462	730,312
Cloud service, bandwidth and server custody fees	1,980,323	1,724,145
Warranty expenses	2,823,897	2,641,794
Auditor's remuneration	88,340	79,126

4 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2020 and 2019 are analyzed as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Current income tax	2,327,725	2,228,609
Deferred income tax	(1,007,003)	(168,913)
Income tax expenses	<u>1,320,722</u>	<u>2,059,696</u>

5 Earnings per share

(a) Basic

Basic earnings per share for the years ended December 31, 2020 and 2019 are calculated by dividing the profit or loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	20,355,504	10,044,164
Weighted average number of ordinary shares in issue (thousand shares)	<u>23,986,829</u>	<u>23,746,463</u>
Basic earnings per share (expressed in RMB per share)	<u>0.849</u>	<u>0.423</u>

(b) Diluted

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	20,355,504	10,044,164
Weighted average number of ordinary shares in issue (thousand shares)	23,986,829	23,746,463
Adjustments for RSUs and share options granted to employees (thousand shares)	664,800	762,301
Adjustments for share consideration for acquisition of an associate (thousand shares)	<u>16,651</u>	<u>—</u>
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	<u>24,668,280</u>	<u>24,508,764</u>
Diluted earnings per share (expressed in RMB per share)	<u>0.825</u>	<u>0.410</u>

6 Investments

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Fair value through other comprehensive income	797,456	—
— Fair value through profit or loss	22,376,387	16,463,390
	<u>23,173,843</u>	<u>16,463,390</u>
Non-current assets		
Long-term investments measured at amortized cost	232,798	—
Long-term investments measured at fair value through profit or loss		
— Equity investments	13,969,457	7,272,454
— Preferred shares investments	21,245,862	13,406,909
	<u>35,448,117</u>	<u>20,679,363</u>

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Fair value changes on equity investments	8,425,388	2,322,349
Fair value changes on preferred shares investments	4,068,659	1,452,273
Fair value changes on short-term investments measured at fair value through profit or loss	679,432	38,390
	<u>13,173,479</u>	<u>3,813,012</u>

7 Trade receivables

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

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	9,400,187	6,076,873
3 to 6 months	534,660	550,929
6 months to 1 year	234,844	308,197
1 to 2 years	110,291	98,643
Over 2 years	81,797	29,706
	<u>10,361,779</u>	<u>7,064,348</u>
Less: credit loss allowance	(200,760)	(115,781)
	<u>10,161,019</u>	<u>6,948,567</u>

8 Inventories

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Raw materials	15,684,698	9,347,930
Finished goods	17,909,963	18,030,136
Work in progress	4,135,024	2,422,504
Spare parts	1,967,593	1,733,042
Others	3,199,153	1,925,785
	<u>42,896,431</u>	<u>33,459,397</u>
Less: provision for impairment	<u>(1,225,712)</u>	<u>(873,959)</u>
	<u><u>41,670,719</u></u>	<u><u>32,585,438</u></u>

9 Borrowings

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities	465,000	2,305,000
Fund raised through trusts	—	450,000
Secured borrowings	1,594,936	1,825,856
Unsecured borrowings	4,530,856	206,000
Convertible bonds (Note(a))	4,044,014	—
	<u>10,634,806</u>	<u>4,786,856</u>
Included in current liabilities		
Asset-backed securities	3,589,629	2,647,641
Fund raised through trusts	547,500	420,000
Secured borrowings	460,257	1,796,701
Unsecured borrowings	2,364,551	7,972,213
	<u>6,961,937</u>	<u>12,836,555</u>

Note:

- (a) On December 17, 2020, the Group completed the issuance of 7-Year US\$855,000,000 (equivalent to approximately RMB5,578,790,000) zero coupon guaranteed convertible bonds due on December 17, 2027 (the “**Bonds**”) to third party professional investors (the “**bondholders**”). The bondholders have the right, at any time on or after January 27, 2021 up to the 10 days prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Group at a conversion price of HK\$36.74 per share, subject to adjustments. The 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.

10 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2020 and 2019, the carrying amounts of trade payables were primarily denominated in RMB, US\$ and INR.

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

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Up to 3 months	68,909,758	57,942,872
3 to 6 months	2,312,665	1,136,595
6 months to 1 year	873,537	342,864
1 to 2 years	34,200	55,709
Over 2 years	68,696	49,900
	<u>72,198,856</u>	<u>59,527,940</u>

OTHER INFORMATION

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

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

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

As at the date of this announcement, the number of Class B Shares in issue was reduced by 48,410,000 as a result of the cancellation of the Shares Repurchased. Upon cancellation of the Shares Repurchased, the weighted voting rights (“**WVR**”) beneficiaries of the Company, simultaneously reduced their WVR in the Company proportionately by way of converting their Class A ordinary shares (“**Class A Shares**”) into Class B Shares on a one-to-one ratio pursuant to 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 8A.13 and 8A.15 of the Listing Rules.

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

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

Compliance with the Corporate Governance Code

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

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

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

Compliance with the Model Code for Securities Transactions by Directors

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

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the audited consolidated financial statements of the Group for the Reporting Period. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, PricewaterhouseCoopers.

Auditor’s Procedures Performed on this Results Announcement

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

Material Litigation

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

Use of Net Proceeds

1. Use of Net Proceeds from the Global Offering

The net proceeds received by the Company from the Global Offering were approximately HK\$27,561.0 million. There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus.

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

The net proceeds received by the Company from the 2030 Notes were approximately US\$ 589.9 million. The Company intends to use the net proceeds of the 2030 Notes primarily for (i) general corporate purposes and (ii) to repay existing borrowings. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated April 20, 2020.

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

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

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

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

Final Dividend

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

Events after the End of the Reporting Period

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

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

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, March 24, 2021

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