

## INDUSTRY OVERVIEW

*Certain information and statistics set out in this section and elsewhere in this [REDACTED] are derived from various government and other publicly available sources, from the market research report prepared by iResearch and from market data published by IDC. iResearch and IDC are both independent industry consultants engaged by our Company, and the Company commissioned iResearch to prepare a market research report (the “**iResearch Report**”) and purchased market data prepared and published by IDC (the “**IDC Report**”). The information extracted from the iResearch Report and the IDC Report should not be considered to be a basis for [REDACTED] in the [REDACTED] or an opinion of either iResearch or IDC with respect to the value of any securities or the advisability of [REDACTED] in our Company. We believe that the sources of such information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. No independent verification has been carried out on such information and statistics by our Company or any other parties involved in the [REDACTED] (excluding iResearch and IDC), or their respective directors, officers, employees, advisors, or agents, and no representation is given as to the accuracy or completeness of such information and statistics. Accordingly, you should not place undue reliance on such information and statistics. For discussions of risks relating to our industry, please see the section headed “Risk Factors—Risks Relating to Our Business and Industry.”*

### SOURCE OF INFORMATION

We commissioned iResearch to conduct market research concerning the global smartphone, consumer internet of things, internet services and new retail markets. We purchased published market data concerning the global smartphone markets prepared by IDC for inclusion in this [REDACTED]. We believe that iResearch and IDC each have specialized research capabilities and experience in these industries in both international and Chinese markets. Both iResearch and IDC use different assumptions and estimates, and limitations on certain data available to them may impact the comparability of certain industry data.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the iResearch Report or the IDC Report. We have also referred to certain information in the “Summary,” “Risk Factors,” “Business” and “Financial Information” sections to provide a more comprehensive presentation of the industry in which we operate.

#### ***The iResearch Report***

iResearch is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including the internet and information technology industry. We have agreed to pay a commission fee of approximately RMB650,000 for the iResearch Report, dated as of May 1, 2018. The iResearch Report was compiled using both primary and secondary research conducted in mainland China and globally. The primary research involved expert interviews and an online survey. The online survey was completed by a statistically significant random sample of individuals living in mainland China. The secondary research utilized information and statistics published by government departments, publications and studies by industry experts, public company annual and quarterly reports, iResearch’s other research reports, online resources and data from iResearch’s research database.

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iResearch’s projection on the size of each of the internet-related markets in mainland China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information regarding, major e-commerce companies, IoT product manufacturers, and those companies’ projections of their own results of operations from iResearch’s interviews or communications with them, (iii) the projections of other industry experts, and (iv) iResearch’s views and estimates of industry developments. iResearch’s projections, including those on the market size of IoT hardware market and internet services market, are based on certain assumptions, including (i) the expected growth rate of mainland China’s economy and GDP and (ii) the level of improvement of internet infrastructure, internet data cost and internet speed in mainland China, and takes into account of other factors including historical data concerning the size of user base and user behavior. The reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

### *The IDC Report*

IDC is an independent international provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. We have agreed to pay a fee of approximately RMB609,000 to purchase the information contained in the IDC Report for inclusion in this [REDACTED]. The IDC Report was published in February 2018. In preparing the IDC Report, IDC conducted primary research, involving vendor and channel interviews at the country, regional, and global levels as well as price collection in the market. IDC has also conducted secondary research involving financial earnings statements, cross-checks with other data feeds such as import/export customs records as well as supply chain feedback. IDC’s projections on market sizes are based on a centralized forecast model based on historical data, key macroeconomic assumptions as well as supply chain and vendor feedback on future output. Its market forecasting methodology takes into consideration of various factors, which include (i) historical data, (ii) macroeconomic environment, (iii) key market drivers and restraints of the related market estimated by IDC, and (iv) expert opinions on future development. IDC’s projections on the market sizes are based on certain assumptions, including (i) the stability of global and mainland China’s social, economic and political environment; (ii) that related key industry drivers remain relevant and applicable in the forecast period; and (iii) that there will be no subversive changes to the related industries.

### *Directors’ confirmation*

Our Directors have confirmed, after making reasonable inquiries and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the iResearch Report and IDC Report, which may qualify, contradict or impact the information in this Industry Overview section.

## SMARTPHONE MARKET

### *Smartphone Users*

There is a large and growing base of smartphone users globally. According to IDC, the total number of smartphone devices grew from 2,871.0 million in 2015 to 3,665.7 million in 2017, representing a CAGR of 13.0%. This is expected to reach 4,798.5 million by 2022, representing a

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CAGR of 5.5% between 2017 and 2022. The following table sets forth the total number of smartphone devices globally and by region:

	Smartphone Installed Base (million)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland										
China . . . . .	808.1	850.0	892.3	923.5	950.5	963.1	976.0	994.5	5.1%	2.2%
Emerging										
Markets <sup>(1)</sup> . . .	1,301.1	1,642.6	1,933.6	2,168.2	2,363.1	2,543.2	2,711.7	2,863.7	21.9%	8.2%
Rest of the										
World <sup>(2)</sup> . . . .	761.8	806.5	839.8	866.9	889.7	910.1	925.9	940.4	5.0%	2.3%
Total . . . . .	2,871.0	3,299.1	3,665.7	3,958.6	4,203.2	4,416.4	4,613.5	4,798.5	13.0%	5.5%

Source: IDC

Notes:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

(2) Rest of the world represents Australia, Canada, Japan, Korea, USA and Western Europe.

Smartphone adoption is expected to increase globally, with growth being driven by emerging markets. The key underlying growth drivers of the smartphone market include higher internet penetration driven by the roll-out of 4G/LTE and advancement of wireless technology, including 5G. Rising income levels and consumer spending have created increasing demand for better smartphones with higher hardware performance, enhanced user experience and aesthetically pleasing designs. Smartphones have become available at increasingly accessible price points due to a variety of factors, including supply-chain optimizations, direct-to-consumer distribution methods and the availability of multiple price points to cater for various income levels. The following table sets forth smartphone penetration rates globally and by region:

	Smartphone Penetration Rate							
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Mainland China . . . . .	58.9%	61.7%	64.5%	66.5%	68.2%	69.0%	69.7%	70.9%
Emerging Markets <sup>(1)</sup> . . . . .	26.1%	32.5%	37.7%	41.7%	44.8%	47.6%	50.0%	52.2%
Rest of the World <sup>(2)</sup> . . . . .	76.0%	80.1%	83.1%	85.4%	87.3%	89.0%	90.3%	91.4%
Total . . . . .	39.0%	44.3%	48.7%	52.1%	54.7%	56.9%	58.8%	60.6%

Source: IDC

Notes:

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### Smartphone Unit Shipments & Sales

Global smartphone unit shipments continue to grow with emerging markets exhibiting the highest growth rates. According to IDC, the number of global smartphone shipments grew from 1,437.6 million in 2015 to 1,462.0 million in 2017, representing a CAGR of 0.8%. This is expected to reach 1,678.9 million by 2022, representing a CAGR of 2.8%, with the increased growth being driven by emerging markets, such as India, which was the third largest smartphone market by shipment volume in 2017 and is expected to be the second largest in 2020. The following table sets forth the shipment volume of smartphone devices globally and by region:

	Smartphone Unit Shipments (million)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland										
China . . . . .	429.9	467.3	444.3	435.7	429.9	431.1	433.2	434.5	1.7%	(0.4)%
Emerging										
Markets <sup>(1)</sup> . . .	621.1	622.1	641.3	681.3	730.6	778.1	822.1	856.6	1.6%	6.0%
Rest of the										
World <sup>(2)</sup> . . . .	386.5	379.5	376.4	376.2	379.8	381.9	384.2	387.8	(1.3)%	0.6%
Total . . . . .	1,437.6	1,468.9	1,462.0	1,493.2	1,540.3	1,591.2	1,639.5	1,678.9	0.8%	2.8%

Source: IDC

Notes:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

(2) Rest of the world represents Australia, Canada, Japan, Korea, USA, and Western Europe.

According to IDC, global smartphone sales grew from US\$425.8 billion to US\$458.5 billion between 2015 and 2017, representing a CAGR of 3.8%. This is expected to reach US\$573.7 billion by 2022, representing a CAGR of 4.6%. The following table sets forth the sales value of smartphone devices globally and by region:

	Smartphone Sales Value (US\$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland										
China . . . . .	111.8	120.2	133.9	150.4	152.0	167.7	174.8	185.0	9.4%	6.7%
Emerging										
Markets <sup>(1)</sup> . . .	132.8	125.3	139.3	149.0	157.0	165.6	171.2	177.4	2.4%	5.0%
Rest of the										
World <sup>(2)</sup> . . . .	181.2	170.4	185.4	199.3	199.1	202.1	206.7	211.3	1.1%	2.6%
Total . . . . .	425.8	415.9	458.5	498.8	508.1	535.4	552.6	573.7	3.8%	4.6%

Source: IDC

Notes:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

(2) Rest of the world represents Australia, Canada, Japan, Korea, USA, and Western Europe.

### Smartphone Components and Materials

The main components and materials for smartphones include lithium-ion batteries, mobile DRAM memory, mobile NAND memory, mobile SoCs, displays and camera modules. According to iResearch, the average prices of lithium-ion batteries, mobile NAND and 1080-pixel displays have decreased from 2015 to 2017 as a result of continued advancement in technology. The costs of mobile SoCs, mobile DRAM and camera modules saw slight increases from 2015 to 2017. Specifically, mobile DRAM prices decreased in 2016 due to oversupply and weakness in consumer PC related demand before rebounding in 2017 as a result of demand from mobile and server applications. The table below sets forth the historical global average prices per unit of lithium-ion batteries, mobile

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DRAM memory, mobile NAND memory, mobile SoCs, displays and camera modules from 2015 to 2017.

Component	Component Price (US\$)		
	2015	2016	2017
Lithium-ion Battery (US\$/kwh) . . . . .	357.0	293.2	251.8
Mobile DRAM (US\$/GB) . . . . .	6.0	3.5	6.7
Mobile NAND (US\$/GB) . . . . .	0.6	0.4	0.5
Mobile SoC (US\$/unit) . . . . .	34.6	35.2	36.5
1080-pixel Display (US\$/unit) . . . . .	16.0	13.5	12.0
Camera Module (US\$/unit) . . . . .	4.1	4.4	5.1

Source: iResearch

### Competitive Landscape

There are significant barriers to entry into the smartphone market given the high upfront costs associated with research and development and the prototyping requirements to manufacture competitive devices. Market entrants need to achieve significant scale in order to realize operating leverage and develop a long-term sustainable business model. Given the current entrenched position of leading smartphone companies and their well-established brand recognition in the market, stabilized supply chain and established distribution channels, it is highly unlikely that new entrants will be able to compete and gain significant market share.

Furthermore, in emerging markets where shipment volume is growing at the fastest pace, shipment volume and smartphone adoption will be driven by accessibly-priced devices with high performance and great user experience. The following table sets forth the percentage contribution of smartphone shipment volume based on price-tier globally and by region, which indicates that the market is driven by smartphones priced between US\$200-US\$500:

	Smartphone Shipment Volume Contribution by Price Tier		
	2015	2016	2017
<b>Global</b>			
Price Band US\$0-US\$200 . . . . .	53.6%	52.5%	48.1%
Price Band US\$200-US\$300 . . . . .	12.0%	14.2%	16.1%
Price Band US\$300-US\$500 . . . . .	11.1%	13.7%	15.2%
Price Band US\$500+ . . . . .	23.3%	19.5%	20.6%
<b>Mainland China</b>			
Price Band US\$0-US\$200 . . . . .	56.8%	48.1%	39.9%
Price Band US\$200-US\$300 . . . . .	13.7%	18.3%	18.5%
Price Band US\$300-US\$500 . . . . .	14.3%	22.9%	28.9%
Price Band US\$500+ . . . . .	15.3%	10.8%	12.6%
<b>Emerging Markets<sup>(1)</sup></b>			
Price Band US\$0-US\$200 . . . . .	67.9%	68.9%	64.8%
Price Band US\$200-US\$300 . . . . .	13.0%	14.4%	17.9%
Price Band US\$300-US\$500 . . . . .	7.6%	7.4%	7.9%
Price Band US\$500+ . . . . .	11.5%	9.3%	9.4%

Source: IDC

Note:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

Key factors that influence customer satisfaction of smartphone products include operating system performance, design appearance, battery performance, CPU performance and camera quality. According to a survey conducted by iResearch evaluating thirteen key factors that influence customer

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satisfaction on smartphone brands in March 2018, Xiaomi ranked number one in overall customer satisfaction. Xiaomi is also ranked number one in terms of customer satisfaction among young people under the age of 20. The following table sets forth the market share ranking of smartphone vendors in the fourth quarter of 2017 by unit shipments and their respective YoY unit shipment change.

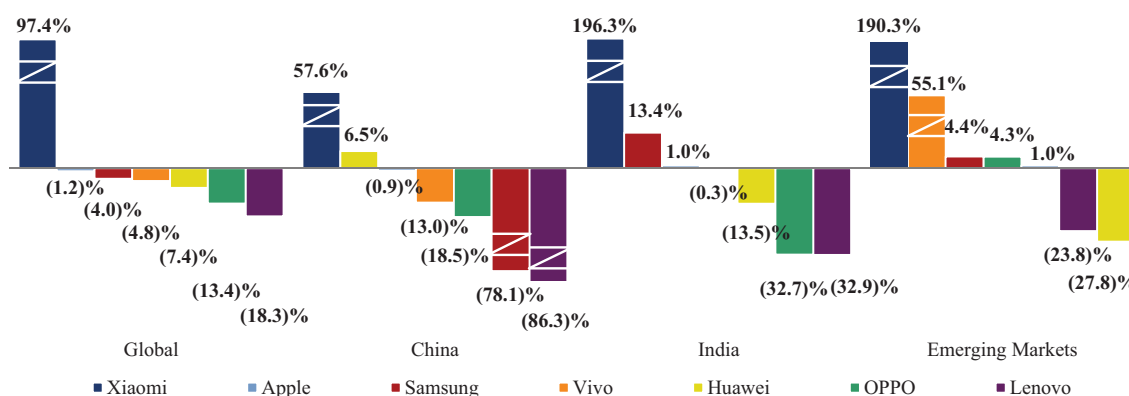
Company	Smartphone Vendor 4Q2017 Market Share Ranking by Unit Shipments			
	Global	Mainland China	India	Emerging Markets <sup>(1)</sup>
Xiaomi	4 <sup>th</sup> (7.2%)	4 <sup>th</sup> (13.9%)	1 <sup>st</sup> (26.8%)	3 <sup>rd</sup> (7.3%)
Apple	1 <sup>st</sup> (19.7%)	5 <sup>th</sup> (12.9%)	9 <sup>th</sup> (2.8%)	2 <sup>nd</sup> (8.5%)
Huawei	3 <sup>rd</sup> (10.7%)	1 <sup>st</sup> (21.3%)	15 <sup>th</sup> (0.8%)	4 <sup>th</sup> (7.0%)
Lenovo	8 <sup>th</sup> (3.1%)	26 <sup>th</sup> (0.1%)	4 <sup>th</sup> (5.6%)	5 <sup>th</sup> (5.5%)
OPPO	5 <sup>th</sup> (6.9%)	2 <sup>nd</sup> (17.5%)	5 <sup>th</sup> (4.9%)	7 <sup>th</sup> (4.4%)
Samsung	2 <sup>nd</sup> (18.9%)	9 <sup>th</sup> (1.0%)	2 <sup>nd</sup> (24.2%)	1 <sup>st</sup> (29.9%)
Vivo	6 <sup>th</sup> (6.0%)	3 <sup>rd</sup> (16.5%)	3 <sup>rd</sup> (6.5%)	9 <sup>th</sup> (2.8%)

Source: IDC

Note:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

### 4Q2017 Unit Shipment YoY Change



Source: IDC

The following table also sets forth the ranking of smartphone brands in the fourth quarter of 2017 by online unit shipments in mainland China and India. In addition to being ranked number one in India for online unit shipments in the fourth quarter of 2017, Xiaomi was also ranked number two in terms of offline smartphone unit shipments in India during the fourth quarter of 2017 with 11% market share, according to IDC.

Mainland China Smartphone Brand Ranking By Online Unit Shipments <sup>(1)</sup>	India Smartphone Brand Ranking by Online Unit Shipments <sup>(1)</sup>
1) Xiaomi (26.0%)	1) Xiaomi (57.0%)
2) Honor (20.1%)	2) Samsung (9.0%)
3) Apple (10.8%)	3) Motorola (8.9%)
4) Vivo (9.0%)	4) Lenovo (4.0%)
5) OPPO (8.1%)	5) Apple (3.4%)

Source: IDC

Note:

(1) Represents ranking of individual smartphone brands rather than ranking of smartphone companies.



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### CONSUMER INTERNET OF THINGS (“IoT”) MARKET

The internet of things (“IoT”) is a network of devices (or “things”) that can communicate seamlessly through the internet. The consumer IoT market refers to the sale of IoT devices and provision of IoT-driven services that are directed towards consumers. Consumer-related applications of IoT span across a variety of categories, including applications across information and entertainment, health and fitness, home automation, home security and safety among others.

According to iResearch, the sale of consumer IoT hardware globally grew from US\$306.3 billion in 2015 to US\$485.9 billion in 2017, representing a CAGR of 26.0%. This is expected to reach US\$1,550.2 billion by 2022, representing a CAGR of 26.1%. The sale of consumer IoT in mainland China grew from US\$71.5 billion in 2015 to US\$118.8 billion in 2017, representing a CAGR of 28.9%. This is expected to reach US\$311.8 billion by 2022, representing a CAGR of 21.3%. The following table sets forth the sales value of consumer IoT hardware globally and in mainland China:

	Sales Value of Global Consumer IoT Hardware Sales (US\$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Smart Home Devices . . .	181.7	225.3	293.2	393.3	457.0	509.8	549.5	580.5	27.0%	14.6%
Wearables . . . . .	12.4	14.9	18.3	23.6	28.3	32.4	35.5	39.2	21.3%	16.5%
Others <sup>(1)</sup> . . . . .	112.2	135.1	174.5	252.3	365.7	526.6	715.1	930.6	24.7%	39.8%
Total . . . . .	306.3	375.3	485.9	669.2	851.1	1,068.9	1,300.1	1,550.2	26.0%	26.1%

Source: iResearch

Note:

(1) Others primarily include the internet of vehicles market, smart healthcare market and others.

	Mainland China Consumer IoT Hardware Sales (US\$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Smart Home Devices . . . . .	58.7	73.2	97.6	126.0	150.1	172.0	188.4	201.0	29.0%	15.5%
Wearables . . . . .	1.9	2.8	3.8	5.0	6.0	7.0	7.9	8.7	41.4%	17.8%
Others <sup>(1)</sup> . . . . .	10.9	13.3	17.3	24.4	35.7	53.3	75.7	102.1	25.9%	42.6%
Total . . . . .	71.5	89.3	118.8	155.4	191.8	232.3	271.9	311.8	28.9%	21.3%

Source: iResearch

Note:

(1) Others primarily include the internet of vehicles market, smart healthcare market and others.

The global consumer IoT market is expected to continue to grow exponentially as a result of advancements in sensor and device processor technology, allowing for internet connectivity to become a more standard feature across a range of consumer products. Furthermore, the ability of providers to increasingly deliver better user experiences by connecting multiple products under a single ecosystem will also propel further user adoption. The roll-out of 5G infrastructure will also support the connection of billions of connected devices that require low latency and high data density. In addition, the continued investment in software technology, cloud infrastructure and AI will enhance IoT services in terms of application, analytics, data sharing and storage.

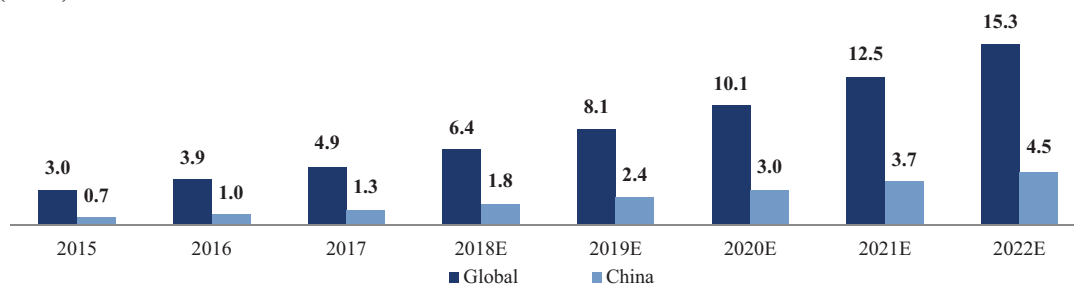
As a result, there has been a rapid increase in the amount of connected IoT devices surrounding the modern day consumer. According to iResearch, the number of consumer IoT endpoints grew from

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3.0 billion in 2015 to 4.9 billion in 2017, representing a CAGR of 27.7%. This is expected to reach 15.3 billion by 2022, representing a CAGR of 25.4% between 2017 and 2022. The following chart sets forth the number of IoT endpoints installed globally:

### IoT Endpoint Installed Base

(Billion)



Source: iResearch

The large and rapidly growing base of IoT devices enables the collection of a vast amount of real-time data, which in turn furthers the development of various consumer applications. IoT endpoints enable streaming data analytics used to better understand consumer needs and preferences in order to optimize product performance, deliver better consumer product experiences and launch new products across application scenarios.

### Competitive Landscape

A successful consumer IoT strategy requires a company to offer not only high quality and well-designed products, but also a wide range of products that can be seamlessly connected by a single app, such as the Mi Home app, in order to meet users’ daily needs.

Xiaomi is the leading IoT platform globally in terms of the number of connected devices as of December 31, 2017, according to iResearch. The following chart sets forth the global market share of consumer IoT hardware by number of connected devices as of December 31, 2017:

2017 Consumer IoT Market Share by Number of Connected Devices					
	Xiaomi	Apple	Amazon	Samsung	Google
Market Share <sup>(1)</sup>	1.7%	0.9%	0.9%	0.7%	0.6%

Source: iResearch

Note:

(1) Market share excludes smartphones and laptops

Xiaomi’s competitive advantage is its all-encompassing suite of accessibly-priced IoT products that are seamlessly integrated and collectively controlled under the Mi Home app, according to iResearch. Other IoT players either tend to focus more on single product verticals or charge higher prices. As an illustrative example, the following diagram sets forth the comparison of prices required to purchase an ecosystem of IoT products from Xiaomi versus purchasing alternative products with similar specifications.



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Comparison of IoT Devices from Xiaomi’s Ecosystem and Comparable Counterpart Products<sup>(1)</sup>

	Smart TV	AI Speaker	Router	Scooter	Wearable	Air Purifier	Induction Heating Rice-cookers	Robot Vacuum Cleaner	Smart Camera	Water Purifier	Total Cost
<b>Xiaomi Model Name</b>	Mi TV	Mi AI Speaker	Mi Router	Mi Electric Scooter	Mi Band	Mi Air Purifier	Mi Induction Heating Pressure Rice Cooker	Mi Robot Vacuum	Mi Home Security Camera	Mi Water Purifier	US\$1,185-\$2,990
<b>Price</b>	US\$138-\$1,492	US\$26-\$46	US\$15-\$107	US\$308	US\$23	US\$108-\$231	US\$62-\$154	US\$260	US\$15-\$62	US\$230-\$307	
<b>System</b>	Controlled by Mi Home app										
<b>Counter-part Model Name</b>	Samsung UA series	Sonos One	TP-Link DR series	INMOTION V series	iWatch	Honeywell KJ series	Panasonic SR series	Roomba® series	Ezviz Smart Camera	Philips WP4170	US\$3,200 - \$7,864
<b>Price</b>	US\$446-\$3,333	US\$279	US\$13-\$230	US\$508	US\$249	US\$325-\$833	US\$156-\$586	US\$741-\$1,304	US\$22-\$81	US\$461	
<b>System</b>	Samsung Smarthings	Amazon Alexa	TP-Link Mobile APP	INMOTION Mobile APP	Watch OS 4	JD Smart	Panasonic Smart	iRobot	Ezviz Cloud	Ali Smart Cloud	

Source: iResearch

Note:

(1) The scope of comparison is limited within products available in mainland China

## INTERNET SERVICES MARKET

The increased adoption of the internet over time has made it an increasingly important medium through which services are created and delivered. The widespread availability of both mobile and high-speed internet connections has allowed the internet to penetrate across a wide category of services spanning across e-commerce, communication, education, healthcare, media and entertainment, information services, finance and other local services. The internet has become an indispensable tool for individuals to engage with the world.

### Internet Services Market Size

According to iResearch, the global internet services market grew from US\$1,010.6 billion to US\$1,540.9 billion between 2015 and 2017, representing a CAGR of 23.5%. This is expected to reach US\$2,600.9 billion by 2022, representing a CAGR of 11.0%. According to iResearch, the Chinese internet services market grew from US\$189.1 billion to US\$320.2 billion between 2015 and 2017, representing a CAGR of 30.1%. This is expected to reach US\$669.2 billion by 2022, representing a CAGR of 15.9%. The internet services market can be further categorized by the following segments: internet retail, online advertising, online games, internet finance, app store and other internet services. The following table sets forth the total internet services market size and internet services market size by segment:

	Global Internet Services Market Size (US\$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Internet Retail .....	494.5	601.4	754.3	901.4	957.0	1,013.7	1,072.7	1,129.7	23.5%	8.4%
Online Advertising .....	212.2	262.9	312.0	361.7	411.6	461.0	510.7	560.4	21.3%	12.4%
Online Games .....	139.4	161.5	179.9	195.9	211.8	228.3	244.2	260.4	13.6%	7.7%
Internet Finance .....	49.7	69.7	94.9	117.6	140.8	163.9	186.8	208.7	38.2%	17.1%
App Store .....	37.0	52.8	71.0	92.2	109.2	128.4	147.5	165.7	38.6%	18.5%
Other Internet Services ....	77.8	101.8	128.8	153.8	181.8	213.2	246.2	276.0	28.6%	16.5%
Total .....	1,010.6	1,250.2	1,540.9	1,822.5	2,012.1	2,208.5	2,408.2	2,600.9	23.5%	11.0%

Source: iResearch

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	Mainland China Internet Services Market Size (US\$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Internet Retail	105.3	129.3	164.4	200.5	224.1	246.1	267.0	286.8	25.0%	11.8%
Online Advertising	35.1	43.4	54.6	70.1	87.6	107.7	130.8	151.6	24.7%	22.7%
Online Games	23.1	26.9	34.9	42.5	49.7	55.7	59.6	62.1	23.0%	12.2%
Internet Finance	13.2	24.2	31.1	39.2	47.6	55.3	62.4	69.2	53.6%	17.3%
App Store	2.1	5.5	12.6	17.3	23.6	28.9	34.9	40.4	145.7%	26.3%
Other Internet Services	10.4	15.8	22.6	29.7	37.2	44.4	51.8	59.1	47.4%	21.2%
Total	189.1	245.2	320.2	399.3	469.9	538.0	606.4	669.2	30.1%	15.9%

Source: iResearch

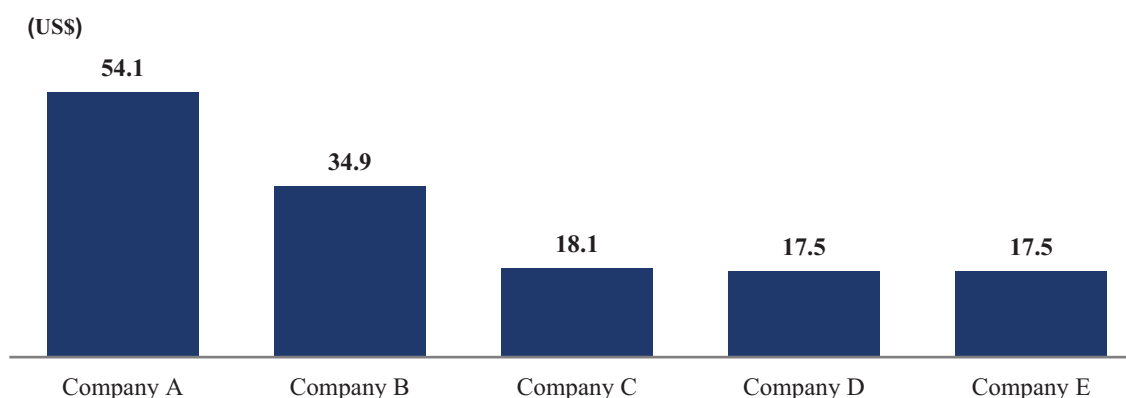
### Competitive Landscape

The internet services market is highly competitive and occupied by a large number of players offering competing services. Internet companies typically spend significant amounts of marketing dollars to build and retain their user base. As a result, companies who have the ability to acquire and retain users through the sale of hardware devices increase their internet services competitiveness in terms of lower customer acquisition cost, higher frequency of user engagement and better data collection capabilities.

### Cost of Customer Acquisition

The cost of acquiring customers has become an important cost component of any internet service model. Smartphone companies that offer internet services are able to leverage device sales to acquire customers at a profit versus other internet models that incur an expense to do so. The following chart sets forth the 2017 customer acquisition per newly-acquired MAU of internet-only players globally. The following chart shows that selected leading internet companies all have customer acquisition costs, which differs from Xiaomi who profitably acquires users through hardware sales.

### 2017 Customer Acquisition Cost Per Newly-Acquired MAU for Selected Global Leading Internet Companies<sup>(1)</sup>



Source: iResearch

Note:

(1) Includes selected leading internet companies with market capitalization of US\$15.0 billion and above as of April 27, 2018

## INDUSTRY OVERVIEW

### *Smartphone as a Gateway to Mobile Internet & User Engagement Tool*

Smartphones are the primary medium through which consumers access the internet. Global mobile internet users as a percentage of total internet users reached 50.8% in 2017 and is expected to reach 68.6% by 2022 as mobile increasingly becomes the predominant mean to access the internet. The following chart sets forth the number of mobile internet users and their respective penetration rates:

	Global Mobile Internet Users								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Global (million) . . . .	3,089.6	3,339.8	3,879.5	4,309.4	4,719.9	5,148.4	5,576.7	6,007.0	12.1%	9.1%
Penetration Rate (% Population) . . .	42.6%	44.7%	50.8%	54.5%	57.7%	61.3%	64.7%	68.6%	9.2%	6.2%

Source: iResearch

	Mainland China Mobile Internet Users								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland China (million) . . . . .	619.8	695.3	752.6	799.6	843.5	888.4	932.2	976.6	10.2%	5.3%
Penetration Rate (% Population) . . . . .	45.1%	50.3%	54.1%	57.5%	60.9%	64.5%	68.1%	71.7%	9.6%	5.8%

Source: iResearch

The adoption of smartphones has also significantly increased the amount of time spent on the internet and expanded the addressable market of internet services.

Consequently, smartphone companies are able to capture significant amount of time spent on the internet. For example, Xiaomi’s average user time spent per day on its smartphones in March 2018 was approximately 4.5 hours. Given smartphones have become indispensable tools for daily life, companies that offer users innovative hardware combined with engaging internet services enjoy a high level of user engagement.

### *The Value of Smartphone and IoT Data*

Smartphone usage has permeated almost all aspects of life as an indispensable daily tool and has allowed for the collection of a vast amount of data. Its vast applications span across a range of daily usage scenarios, enabling internet service providers to collect user behavioral, consumption and preference data to drive improvements in user experience and to deliver higher quality services.

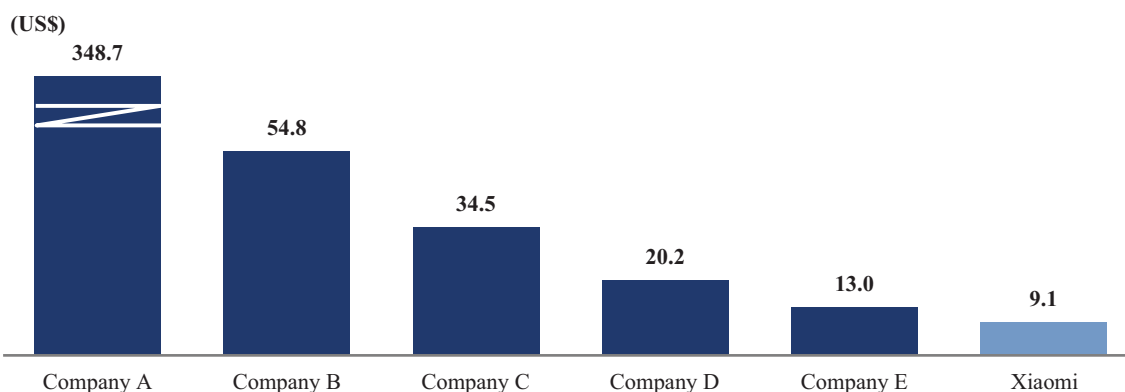
The proliferation of IoT is also bringing a significant amount of connected devices online, allowing user data and preferences to be captured anytime anywhere. Companies who also offer IoT products are able to leverage the vast amount of real-time sensor-based data to further develop additional uses cases and applications for consumers, such as AI-enabled products.

### *User Monetization*

Major internet services players are at varying stages of user monetization. The degree to which an internet services player monetizes its users is unique to and subject to the specific player’s strategy and maturity of its business model. Xiaomi’s average internet services revenue per user of US\$9.1 in 2017 still has significant room for further growth when compared to the internet services revenue per user of selected leading internet players globally, according to iResearch.

## INDUSTRY OVERVIEW

### 2017 Internet Services Revenue Per MAU for Selected Global Leading Internet Companies<sup>(1)</sup>



Source: iResearch

Note:

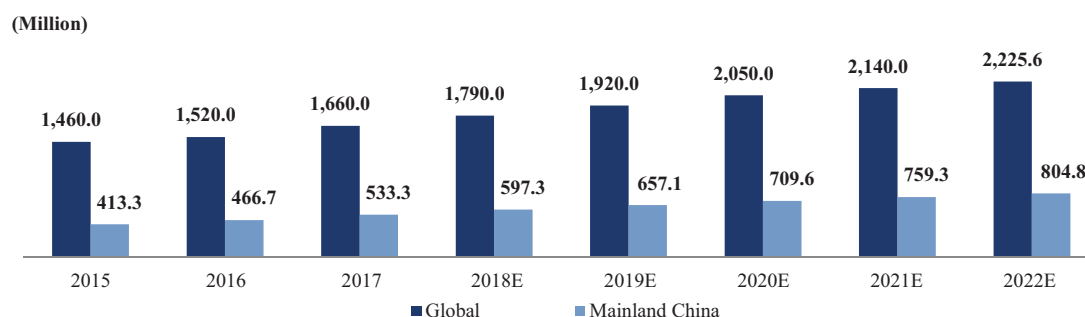
(1) Includes selected leading internet companies with market capitalization of US\$15.0 billion and above as of April 27, 2018.

## NEW RETAIL

New retail can be understood as the seamless integration of online and offline retail channels through technology to drive efficiency. The integration of online and offline retail channels is highly synergistic and drives customer traffic, which improves overall sales efficiency. New retail also enhances cost efficiency through direct-to-consumer distribution via self-owned online and offline channels to reduce the need for additional distribution layers.

Online retail has developed rapidly as it offers consumers greater product variety and enhances price transparency, allowing consumers to quickly identify products they wish to purchase. Furthermore, the growth of online retail is especially significant in emerging markets where underdeveloped offline retail infrastructure has driven a leapfrogging to online retail. According to iResearch, the number of online shoppers globally reached 1,660.0 million in 2017 and is expected to reach 2,225.6 million by 2022, representing a CAGR of 6.0%. In mainland China, the number of online shoppers reached 533.3 million and is expected to reach 804.8 million by 2022, representing a CAGR 8.6%.

### Number of Online Shoppers



Source: iResearch

The online retail market is characterized by numerous players offering different segments of products through different business models, such as platform marketplaces or through direct sales. Xiaomi’s Mi Store is the third largest 3C and home appliances direct sales online retail platform in

## INDUSTRY OVERVIEW

mainland China and the third largest direct sales online retail platform in India by GMV in 2017, according to iResearch.

Offline retail, however, can supplement online retail and enable further penetration into underdeveloped rural areas where internet penetration is typically lower and where offline retail formats are still preferred by consumers. The below chart sets forth the internet penetration rates in rural and urban regions in mainland China and India, respectively.

		Internet Penetration							
		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018E</u>	<u>2019E</u>	<u>2020E</u>	<u>2021E</u>	<u>2022E</u>
Mainland China									
Urban	.....	64.5%	67.6%	70.0%	72.5%	74.8%	77.2%	79.5%	81.9%
Rural	.....	32.0%	33.5%	35.6%	37.7%	39.7%	41.8%	43.9%	45.8%
India									
Urban	.....	60.2%	59.1%	64.1%	67.1%	70.8%	73.7%	77.3%	80.7%
Rural	.....	15.3%	17.7%	20.4%	23.2%	25.9%	28.7%	31.4%	34.2%

Source: iResearch

By leveraging online and offline channels, retailers are able to increase the number of consumers touchpoints and the breadth of services delivered, allowing them to capture a broader user base. This allows them to develop a more in-depth understanding of consumers, enabling them to offer a more seamless and higher quality retail experience.

By focusing on superior user experience and interacting directly with consumers, new retail is able to drive higher sales efficiency as compared to traditional retail. For example, Xiaomi’s sales efficiency, as measured by retail sales per squaremeter, ranked second globally and is more than ten times higher than that of leading mainland China traditional retailers in 2017, according to iResearch.

New retail is also focused on efficient distribution by eliminating middlemen. This can be contrasted to the traditional smartphone sales model that typically utilizes many layers of distribution. By reducing unnecessary distribution layers, direct-to-consumer retailers are able to lower channel cost and pass the cost savings to consumers in the form of lower prices, therefore enhancing the overall competitiveness and attractiveness of their product offerings.