

OPEN LETTER FROM OUR CHAIRMAN

Thank you for your interest and support for Xiaomi. As you read this document, I hope you not only see a fast-growing and thriving company, but more importantly, understand how we pioneered an amazing, innovative business model underpinned by courage and trust.

In this letter, I would like to share my personal thoughts on Xiaomi and what we strive for.

We are more than a hardware company. We are an innovation-driven internet company.

Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core. Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.

Every day for the past eight years, our vision to be friends with our users and to be the “coolest company” in the hearts of our users has motivated us to pursue innovation and maintain an unwavering focus on quality and efficiency. This has resulted in us continually achieving many ground-breaking milestones.

We founded Xiaomi in April 2010. At the time, my co-founders and I had a simple idea—to create a very cool smartphone that we would personally love. Among Xiaomi’s eight co-founders, six of us are engineers and two are designers. All of us are hardcore fans of technology.

“Amazing products” and “honest prices” come hand-in-hand. They are inseparable. Only through building amazing products that well exceed people’s expectations and offering them at honest prices, can we win over the hearts of our users. Pursuing innovative technology and outstanding design is in our DNA. Our engineers are obsessed with pushing the boundaries of technology, and they repeatedly craft every minute detail to ensure our products completely exceed our users’ expectations. We have the courage to break with convention and constantly improve ourselves, and these are the key reasons why we have been able to gain our users’ sustained trust and appreciation.

We promote a bold innovative culture, not limited to technology. We are innovative not only in smartphone technology, including materials, displays and SoCs, but also in design, where we have received over 200 globally acclaimed industrial design awards in the past few years. We have a unique “triathlon” business model and have built a one-of-a-kind ecosystem of companies. We have a unique engagement model with our online users, as well as a highly efficient new retail strategy incorporating both online and offline. The spirit of innovation is deeply ingrained in everything we do and motivates us to accelerate our exploration of uncharted waters.

Currently, we are the world’s fourth-largest smartphone company. We have created many smart hardware products, among which many are leaders in their respective categories. We have also built the world’s largest IoT platform with over 100 million connected devices. In addition, we have 190 million MIUI monthly active users who regularly use our innovative internet services.

What makes us even prouder is that we have completely transformed the industries that we participate in. We have driven the rapid adoption and quality improvement of smartphones in China, laying a strong foundation for the rise of the mobile internet in the country. The rapid development

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of mobile payments, e-commerce, social networking, and short-form videos in China can be largely attributed to the penetration of the mobile internet into the lives of hundreds of millions of people. China is now the world's largest smartphone market with a strong and vibrant mobile internet industry. We believe our contributions to this have been widely recognized.

Good companies make profits, great companies also win over people's hearts. We pride ourselves even more in being a technology company with a rare "fan culture." We have a large global community of "Mi Fans," passionate users who are intensely loyal to our brand, highly engaged on our platform and actively contribute feedback and feature ideas to our product development.

After a successful rebound, Xiaomi's business model has been proven again.

As a young Internet company, Xiaomi has conquered many challenges. In 2016, our smartphone sales declined. It was clear to us that because we grew so quickly in our early years, we did not have an adequately strong foundation to face all the challenges in front of us at that time. We deliberately slowed our growth to focus on strengthening three key aspects of our business: innovation, quality and supply management. In 2017, Xiaomi successfully delivered on these key aspects and quickly returned to rapid growth.

As far as we know, apart from Xiaomi, there has never been another smartphone company that has successfully rebounded after a decline in sales.

This was a turning point for Xiaomi. This experience was invaluable for us. We strengthened our management capability, grew our talent pool, broadened our technology foundations and enhanced our supply chain and production capabilities.

More importantly, our business model was tested and proven again.

Xiaomi is more than a hardware company. We are an innovation-driven internet company. Although our hardware business is essential to building our user base, we do not expect it to be the main source of our profits. We maintain excellent design and outstanding quality in our products, while pricing our products as close as possible to cost by selling them to users through highly efficient online and offline new retail channels. We then provide our users with comprehensive internet services.

This is our unique "triathlon" business model, which encompasses hardware, new retail and internet services. Xiaomi's achievements so far illustrate the strength and resilience of our model. Within 7 years of our founding, our annual revenue exceeded RMB100 billion, achieving a growth rate that many traditional companies are unable to match.

The increase in efficiency comes from lowering operating costs, especially sales and marketing costs. Xiaomi's unique business model ensures that our products are high quality and priced honestly, which is the foundation of our users' trust in us.

We pledge that our overall hardware net profit margin will never exceed 5%.

During the early years of Xiaomi's founding, we had a grand dream: to improve the efficiency of the entire business world.

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For example, in China, a shirt that costs US\$15 to produce may retail for as much as US\$150. This is a shocking markup of 10 times. A pair of shoes may be marked up by 5 to 10 times, and a tie can be marked up by 20 times. The list is endless.

It has always been difficult for me to understand why businesses are so inefficient. Why do users have to bear the costs of inefficiency? Cost reduction efforts are usually focused on reducing production costs, which may account for only 10% of total costs. Rarely do companies focus on eliminating the inefficiencies in sales, marketing and operations, which may account for 90% of total costs.

Xiaomi has the will and determination to revolutionize the industries that we participate in through relentlessly pursuing cost-efficiencies.

At the beginning of 2011, during our first employee annual meeting, I told more than 100 employees and their families that we wanted to make smartphones with the best performance and user experience, and sell them for only US\$300. At that time, similar smartphones were selling for more than US\$600.

Great companies are always focused on creating quality products and selling them at better and better prices so that users can get their money's worth.

As Xiaomi continues to progress, we ask ourselves: what has remained constant in the ever-changing business world?

Our answer is that users have always expected amazing products at honest prices.

Many of our users tell us that when they browse Mi Store or visit a Mi Home, they can buy any of our products with full confidence, because they know these products have the best quality and price. When I hear this, I know that all of our energy and efforts are worth it. This is ultimately our goal.

Our users' trust is the foundation of our business and efficiency is the soul. As long as we continue to earn the trust of our users, our business will continue to perform well. A company that is able to achieve world-class efficiency will have the ability to survive multiple economic cycles, continuously seize new opportunities in the industry, and sustain excellent operational performance in the long run.

"Amazing products, honest pricing" comes with real action. At this point, I would like to pledge to our existing and potential users: starting in 2018, Xiaomi's hardware businesses' overall net profit margin will not exceed 5% per year. If the net margin exceeds 5%, we will return the excess to our users.

It is our belief that delivering sustained, high quality user experience is more important than pursuing one-time hardware profits. Focusing on efficiency is more important than short-term

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profits. We are confident that maintaining reasonable profits will inevitably become an industry trend. Blindly pushing for higher margins will not be sustainable.

Therefore, I would like to emphasize that we will focus on upholding our users' and our company's long-term interests, which in turn creates more value for our shareholders.

It is our ultimate commitment to efficiency to cap our hardware business net profit margin at 5%. We know that it may take time for everyone to fully embrace our ideals. However, time is on our side. Our steadfast determination and execution will eventually help us to realize our dreams.

Building an open global ecosystem, our potential has no boundaries

Today, we present ourselves to you as we prepare to enter a new stage in our journey. We believe that the potential of our global business is only limited by our imagination.

We are building an open global ecosystem, and not a walled garden. To let everyone on earth enjoy a better life through innovative technology, one "Xiaomi" is not enough. We need to incubate and partner with at least 100 other "Xiaomis" in order to successfully build a rich and vibrant new global business ecosystem.

With our unique ecosystem model, we have mobilized many like-minded entrepreneurs. We are not alone. Together, we have created a comprehensive suite of products that revolve around our smartphones, including mobile peripherals, smart hardware and lifestyle products. Currently, Xiaomi has invested in more than 90 IoT and lifestyle companies, and together, we have changed many industries. In the future, our ecosystem will get even bigger.

We are not only changing industries in China, but also elsewhere in the world. Among the more than 70 countries and regions that we have entered, we are number one in India in terms of smartphone market share and are among the top 5 smartphone companies in 15 countries. We will continue to prove that Xiaomi's business model can be extended globally at a rapid pace.

Building a global ecosystem has provided Xiaomi with more opportunities for long-term development, expanded our boundaries, and further strengthened our foundation. With the era of big data and AI upon us, we believe that the high volume of data generated by our ecosystem will allow us to better understand our users' needs and give us a significant edge to offer improved products and services.

The spirit of engineering runs in our veins. This spirit drives us to relentlessly explore the most advanced technologies in order to benefit as many users as possible and to be the coolest company in the hearts of our users. We believe that everyone in the world should enjoy a better life through innovative technology.

Fundamentally, the Internet is all about transparency, efficiency, and equality. We want to allow everyone, regardless of gender, ethnicity, religion, nationality, or education level, to enjoy the benefits of technology.

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This is the goal that all Xiaomi employees and I are working tirelessly for.

Thank you for your interest in Xiaomi. Together, I believe we can create a paradigm shift of efficiency in the business world and use technology to improve the lives of many.

To gift honesty to business, to gift warmth to technology, to gift happiness to everyone, our mission has no boundaries, and we have only just begun. We have changed how hundreds of millions of people live, and we will become a part of the lives of billions of people globally in the future.

Good things happen to good people. Please join us on our journey. Always believe.

Sincerely yours,

Lei Jun