

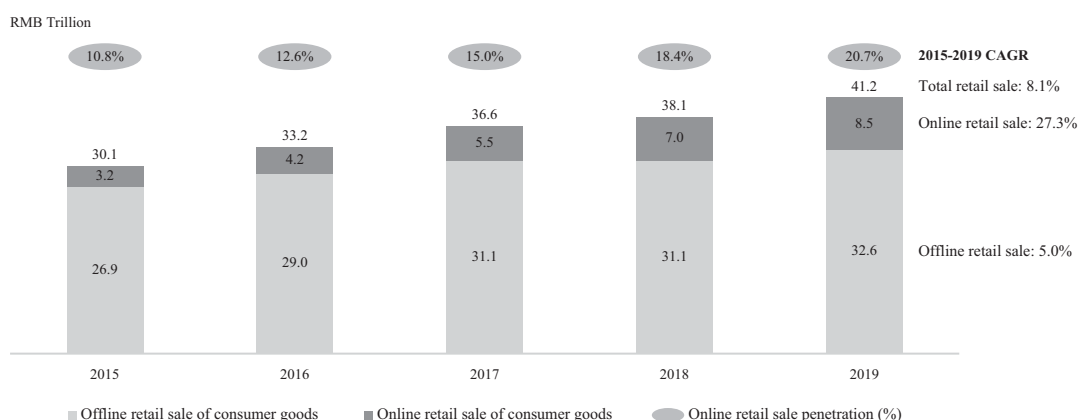
## INDUSTRY OVERVIEW

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### Massive Retail Market in China

China has the second largest retail market in the world in 2019. According to National Bureau of Statistics of China, or NBS, the retail market in China, defined as the overall retail sales of consumer goods from both online and offline channels, grew by a CAGR of 8.1% from RMB30.1 trillion in 2015 to RMB41.2 trillion (US\$5.9 trillion) in 2019. Such massive scale and growth of the retail market is the result of an increasing per capita disposable income and consumption upgrade cycle.

#### Retail sales of consumer goods in China, 2015–2019



Data source: National Bureau of Statistics of China

From 2015 to 2019, China's per capita annual disposable income grew from RMB21,966 to RMB30,733 (US\$4,415) at a CAGR of 8.8%, which outpaced the CAGR of 6.5% for China's GDP growth for the same period, according to NBS. As a result, China's middle income class, defined as individuals with annual income from RMB25,000 (US\$3,591) to RMB250,000 (US\$35,910), grew from approximately 337 million in 2015, representing 24.5% of the total population, to approximately 543 million in 2019, representing 38.8% of the total population, according to iResearch. More disposable income allowed Chinese consumers to increase their discretionary spending, with average consumption spending increasing by a CAGR of 8.2% from approximately RMB15,712 in 2015 to approximately RMB21,559 (US\$3,097) in 2019, according to NBS.

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The upward trend of disposable income particularly benefitted lower tier cities, defined as tier 3 and lower cities, the retail market of which grew at a CAGR of 8.8% from approximately RMB15.1 trillion in 2015 to approximately RMB21.2 trillion (US\$3.0 trillion) in 2019, outpacing the growth of first and second tier cities combined, according to iResearch. We believe this is attributable to a combination of factors, including: (i) lower tier cities in 2019 accounted for approximately 56.3% of the city dwelling population in China, according to iResearch; (ii) lower tier cities had a higher growth of online penetration rate from 2017 to 2019, according to iResearch; and (iii) urbanization progressed quickly in recent years due to favorable government policies. Moreover, the advent of online retail and mobile internet has helped consumers in lower tier cities to overcome challenges associated with the underdevelopment of offline retail infrastructure, such as shortage of merchandise selection and access to authentic products.

China's retail market continues to be highly fragmented, with top 20 retailers in the aggregate accounted for approximately 19.0% of the entire market in 2019, compared to approximately 49.6% in the U.S. in 2019, according to iResearch. We believe this presents an opportunity for market leaders in China with wide product selection, strong brand reputation, leading technologies, solid procurement capability, efficient operations and fulfilment capabilities to expand their market share.

### **Rapidly Scaling Online Retail Market**

Within China's retail sales of consumer goods market, the online sale of consumer goods segment has experienced outsized growth, expanding at a CAGR of 27.3% from RMB3.2 trillion in 2015 to RMB8.5 trillion (US\$1.2 trillion) in 2019, in line with the growth of the overall online consumption market, which includes the online retail sale of consumer goods and online consumption of service and entertainment. The overall online consumption market grew at a CAGR of 28.7% from RMB3.9 trillion in 2015 to RMB10.6 trillion (US\$1.5 trillion) in 2019, according to NBS, and is expected to expand further to RMB15.1 trillion (US\$2.2 trillion) in 2023 according to iResearch. From 2015 to 2019, the number of online shoppers increased at a CAGR of 12.4% from approximately 413 million to approximately 659 million, according to iResearch.

In addition to advantages in wider customer reach and product selection, key contributing factors to the rapid growth of the online retail market also include high mobile internet penetration rate, high adoption rate of mobile payment, and extensive and rapidly improving logistics infrastructure in China. With the widespread use of smartphones and tablets and rapidly expanding 4G/5G networks and WiFi services, mobile shopping has become a mainstay form of online retail in China, as consumers increasingly take advantage of fragmented time to browse and shop regardless of location. According to iResearch, mobile internet users in China reached 877 million in 2019 and the number of users that used mobile online payments reached 627 million in the same year. In addition, we believe China has a highly developed and extensive nationwide logistics infrastructure, consisting of regional and local delivery services. This enables online retailers to quickly deliver products to consumers, thereby increasing the attractiveness of online retailing.

### **Emergence of Omni-channel Retail Platforms**

As Chinese consumers become more sophisticated, so too are their demands for shopping experience, which include convenience to browse and place orders, personalized and targeted recommendations, quality after sales customer support and seamless integration of online and offline loyalty programs, among others. We also believe that, craving for an enhanced shopping experience,

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Chinese consumers are also increasingly demanding for access to a wider array of products and services, ranging from international products and brands to niche products traditionally only sold or produced locally.

As a result, there emerges a new form of omni-channel retail platform, which provides consumers with a seamless, integrated and highly personalized shopping experience as well as access to an increasingly diversified range of products. We believe the follow are key factors for an omni-channel retail platform to succeed: utilization of technologies such as AI, big data and cloud computing to create a seamless omni-channel and highly personalized shopping experience; access to a highly diversified range of products and expansion into new product categories; provision of customer insight tools to third-party merchants on the platform to help them optimize their business strategy; establishment of an efficient supply chain involving logistics, inventory management and fulfilment through the use of advanced technologies; provision of support services to help suppliers and third-party merchants cope with challenges they may encounter on the platform.

### **Opportunities for Supply Chain-based Technologies and Services**

The rapid growth of the online retail market in China provides market leaders with significant scale and cutting edge technologies the opportunity to offer their technologies and services to participants throughout the retail value chain from upstream manufacturers to end customers. Offering existing infrastructure, platform and technology services to third parties can be accomplished with controllable additional investment and can generate additional monetization opportunities as well as ultimately improve the operating efficiency across the entire value chain. In particular, we believe logistics services and retail technology services present two specific areas of opportunity.

- **Logistics services:** We believe China's logistics and fulfilment services sector is highly labor intensive and inefficient. This creates opportunity for supply chain-based technology and service providers to offer various solutions to empower their business partners. Examples include: integrated supply chain management solutions, intelligent and automated warehouse management through the use of technology such as intelligent hardware, robotics and voice recognition; technology-enabled fulfilment services that use LBS, big data and AI to optimize truckload, delivery routes and scheduling; and cloud-based analytics and services that utilize intelligent hardware, computer vision and deep learning to enable business partners to effectively monitor, manage and optimize their logistic workflows.
- **Retail technology services:** Capitalizing on their data, infrastructure and technology, market leaders can commercialize their retail capability by providing services to brands and partners, such as predictive analytics, product optimization, and pricing and inventory recommendation.

### **Opportunities for Tapping into Global Market**

Retail and supply chain-based technologies and services are not limited by national or geographic boundaries. As the world becomes more connected, the demand for international products, services and technology will increase globally. This creates an opportunity for market leaders in the retail industry in China with extensive customer reach and product offerings to facilitate transactions between Chinese consumers and global brands, and connect global consumers with Chinese brands.

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In addition, we also believe supply chain-based technologies and services, such as intelligent warehouse management, computer vision and predictive analytics, have significant potential for global applications, creating an opportunity for supply chain-based technology and service providers in China to expand globally.