

## **Xiaomi Made Adjustments to IPO Document: Non-compliance of Suppliers with Environmental Laws and Regulations May Have Adverse Impact on Business Operations and Financial Results**

The Hong Kong Exchanges and Clearing Limited (hereinafter referred to as “HKEX”) released the *Post Hearing Information Pack* (1st submission) (full version)<sup>1</sup> (hereinafter referred to as “PHIP”)<sup>2</sup> of Xiaomi Corporation on June 21<sup>st</sup>, 2018.

Compared to the *Application Proof* published on May 3<sup>rd</sup>, in which Xiaomi emphasized ‘we are not subject to any significant health, safety, or environmental risk’, environmental groups noticed that Xiaomi admitted ‘certain current suppliers of the Group have experienced historical environmental non-compliance incidents’ and that the ‘non-compliance of our suppliers with relevant environmental laws and regulations may cause disruptions to our product supply to users, increase our cost of sales and have a material and adverse impact on our business operations and financial results’ in the PHIP.

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### **RISK FACTORS**

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natural and man-made disasters, information technology system failures, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues.

#### ***Certain current suppliers of the Group have experienced historical environmental non-compliance incidents.***

Certain current suppliers of the Group have experienced historical environmental non-compliance incidents. We cannot assure you that our suppliers will not violate relevant environmental laws and regulations in the future. Non-compliance of our suppliers with relevant environmental laws and regulations may cause disruptions to our product supply to users, increase our cost of sales and have a material and adverse impact on our business operations and financial results.

Xiaomi issued the *Prospectus for Depository Receipt*<sup>3</sup> on the China Securities Regulatory Commission (CSRC) website on June 14<sup>th</sup>, admitting for the first time that current suppliers of the Group have experienced environmental non-compliance incidents, and disclosing its environmental policies and selection criteria for potential new smartphone and laptop suppliers.

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<sup>1</sup> <http://www.hkexnews.hk/app/sehk/2018/2018050202/sehkcasdetails-2018050202.htm>

<sup>2</sup> <http://www.hkexnews.hk/app/sehk/2018/2018050202/Documents/SEHK201806210005.pdf>

<sup>3</sup> <http://www.csrc.gov.cn/pub/zjhpublic/G00306202/201806/P020180614615014857905.pdf>

Environmental groups subsequently sent letters to Xiaomi, acknowledging this change while reminding Xiaomi of the inconsistency between the *Application Proof* for IPO in Hong Kong and the *Prospectus for Depository Receipt* in mainland China, and further requiring Xiaomi to make corrections to the prospectus document on HKEX to safeguard the rights and interests of investors.

Environmental groups believe that Xiaomi has made another positive step by making substantial adjustments to the IPO document, disclosing the past environmental violations of its current supply chain and explaining its supply chain environmental management policies.

We noticed that in the revised IPO document submitted to HKEX, Xiaomi renewed its understanding of the risks from the environmental non-compliance of its supply chain: ‘non-compliance of our suppliers with relevant environmental laws and regulations may cause disruptions to our product supply to users, increase our cost of sales and have a material and adverse impact on our business operations and financial results’.

We believe that this type of risk alert is essential to safeguard the rights and interests of investors. We also noticed that while Xiaomi admitted its suppliers’ environmental non-compliance, it has neither urged these suppliers to conduct corrective actions and make public statements with respect to the reasons for their non-compliance, nor provided credible third-party audit reports to verify the effectiveness of rectification effects; instead, Xiaomi only mentioned that ‘such suppliers have rectified their historical environmental non-compliance incidents’.

According to public reports and follow-up on-site investigations, the environmental groups disagree with Xiaomi's statement that ‘such suppliers have rectified their historical environmental non-compliance incidents’. We hope that HKEX will perform its supervisory responsibilities to verify the rectification of environmental non-compliance incidents by Xiaomi's suppliers, and prevent IPO companies from making false statements, so as to safeguard the rights and interests of investors.

We noticed that Xiaomi emphasized in the PHIP that ‘we cannot assure you that our suppliers will not violate relevant environmental laws and regulations in the future’. However, in response to environmental challenges in their supply chains, a number of leading brands from China and overseas have already taken actions to consistently push suppliers to comply with environmental laws and regulations, improve their environmental performance and accept public supervision through information disclosure. For relevant information, please see:

<http://wwwen.ipe.org.cn/GreenSupplyChain/Communication.aspx>

Xiaomi declares in the PHIP that 'we are committed to manage our supply chain in an environmentally-friendly and socially responsible manner'. We hope that Xiaomi can achieve this vision, and we suggest that Xiaomi take this adjustment of the IPO document as an opportunity to learn from the experience of leading brands. We suggest that Xiaomi establish effective supply chain environmental management policies and systems, manage and control environmental risks in the supply chain, and gradually establish social trust in its environmental management, ultimately working toward sustainable development.

## Appendix

### Health, Safety and Environmental Matters

We engage outsourcing partners to assemble our hardware products developed in-house and rely on partners to supply finished ecosystem hardware products. We do not operate any manufacturing

or assembling facilities. We only operate some of the key warehouses and engage third parties for delivery of our products. Therefore, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other penalties due to non-compliance with health, safety or environmental regulations.

Our *Policy on Management of Pollutants*, or the Policy, has been distributed to our relevant internal departments and external outsourcing partners and other suppliers. Pursuant to the Policy, suppliers shall undertake to provide raw materials and components in accordance to the requirements of the Policy and that the suppliers shall establish relevant internal control systems to monitor and supervise the use of any pollutants/hazardous substances. Suppliers are also required to submit (i) a signed declaration, where the suppliers shall undertake to, among others, notify us should there be any changes to their raw materials, components, production method and sites, and any products failing to satisfy the standards as set forth in the Policy; (ii) a third-party precision analysis report and (iii) a list of the substance/raw materials used.

In terms of the assessment of potential new suppliers for our smartphones, in addition to assessment of the quality of raw materials, components and services supplied, we also give significant weight to the following four factors: (i) environmental protection management, (ii) health and safety management, (iii) information security management, and (iv) social responsibility management. For environmental protection management, we have a 17-prong test to assess various aspects of the environmental protection procedures and capabilities of prospective new suppliers for our smartphones. In terms of the assessment of potential new suppliers for our laptops, we carry out on-site examination of the production facilities of prospective suppliers in order to determine whether (i) they are in compliance with national and local environmental protection laws and regulations, (ii) whether they regularly conduct internal environmental compliance audit and whether the results of such audits are properly recorded, (iii) whether environmental protection is a consideration in their design and production processes, and (iv) whether their production facilities have enough safeguards for environmental protection and labor safety compliance.

In terms of proposed construction and leasehold improvement projects, we engage independent qualified consultant agencies to produce reports on energy conservation, environmental and ecological impact, as well as socio-economic impact, as part of our holistic feasibility study procedure.

For our warehouses, offline retail stores and offices, we have internal policies that require each employee to use best efforts to conserve energy and minimize waste of office supplies. Furthermore, we strive to only purchase environmentally friendly fixtures, appliances and office supplies for our physical facilities.

Certain current suppliers of the Group have experienced historical environmental non-compliance incidents. Such suppliers in the aggregate are not, and were not, during the Track Record Period, material to the Group. Such suppliers have rectified their historical environmental non-compliance incidents, and are currently in compliance with the relevant supply agreements that we have in place with them. Our internal control policies on environmental issues dictate that our supply contracts with suppliers contain covenants from suppliers that they will abide by the relevant

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environmental laws and regulations, as well as to indemnify us for any loss incurred by us that results from any environmental non-compliance by the suppliers. We will comply with Rule 13.91 of Listing Rules regarding Environmental, Social and Governance ("ESG") disclosure after the [REDACTED].

We have prepared and plan to implement an ESG policy framework post the [REDACTED], but will begin to apply the underlying ESG considerations and drive ESG initiatives in our sourcing efforts prior to the [REDACTED]. We will focus on each of areas as specified in Appendix 27 Environmental, Social and Governance Reporting Guide of the Listing Rules, particularly those environmental and social issues that could have a material impact on the sustainability of our operations and that are of interest to shareholders. We have established internal control systems and risk management processes to govern sustainability related practices so as to provide reasonable assurance of effective ESG management to the Board and key stakeholders.

Regarding environment & natural resources, our sustainability vision is to reduce and minimize adverse impact on the environment through a commitment for continuous improvement. Across the operating jurisdictions and activities along the value chain, we plan to improve the awareness and involvement of all shareholders in our sustainable journey to reduce carbon footprint and negative impact on the environment, biodiversity and natural resources. In addition to implementing the ESG policy, we also plan to launch various initiatives to promote eco-friendly practices. We encourage energy conservation by all employees and incorporate eco-friendly practices into daily habits at workplace. We will also roll out more initiatives and awareness training in the future to reduce resources consumption and environmental impact.

Regarding energy consumption, we will take various initiatives to raise awareness of energy reduction and conservation at offices. We encourage energy usage on a need basis, and strongly encourage employees to adopt paperless communication through email reminders.

Regarding emission, we recognize that the use of purchased electricity contributes to the emission of carbon and other Green House Gas (GHG). We have and will continue to take conscious efforts to measure and monitor the consumption of electricity at our corporate offices across operating locations. At corporate offices, electricity consumption is used for the purpose of ensuring normal business operations on a day to day basis. Along our value chain, we also identify the need to focus on electricity consumed at production facilities operated by our suppliers, including hardware ecosystem partners.

We are committed to manage our supply chain in an environmentally-friendly and socially responsible manner. To ensure ethical and socially responsible practices along our value chain, we maintain a zero tolerance for unethical treatment and illegal labor practices including forced labor, child labor, and inhuman working conditions. We have prepared a comprehensive supply chain management protocol to govern our sourcing, on-boarding, performance evaluation, quality checks, as well as undertake the necessary measures to ensure assembly, raw materials, components and product suppliers are compliant with the required regulatory compliance in their respective operating locations. For instance, as part of our on-boarding process, we conduct site inspections and require contract manufacturers to provide evidence or references proving their quality of service, practices, financial capability and track record related to compliance. In addition, we require suppliers, including hardware ecosystem partners to obtain following certifications including ISO 14001 and OHSAS 18001. We also enforce onto our suppliers, as part of their contractual responsibilities, to ensure raw materials and components for our products are compliant with international safety, health and quality requirements,

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including Restriction of Hazardous Substances (RoHS), REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), Waste Electrical and Electronic Equipment Directive (WEEE Directive) and Green Package.

We are in the final stage of selecting, and plan to engage prior to the [REDACTED], a leading ESG consulting firm with a mandate to: (i) further strengthen our ESG risk management and compliance internal control procedures, as well as our information management and reporting mechanisms, in order to ensure full compliance with all requirements and obligations of a public company listed in Hong Kong, (ii) assist with the implementation, effective operation and monitoring of our ESG management system, as well as help with the on-going optimization of our ESG management system, and (iii) raise general awareness of ESG compliance within our Group through effective communication methods.