



XTEP INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
SEHK stock code: 1368



2023

ENVIRONMENTAL, SOCIAL
AND GOVERNANCE REPORT

Xtep International Holdings Limited

(SEHK stock code: 1368)

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange in 2008. The Group principally engages in the design, development, manufacturing, sales, marketing and brand management of sports products covering footwear, apparel and accessories for adults and children. With a diverse brand portfolio encompassing the core Xtep brand, K-SWISS, Palladium, Saucony and Merrell to strategically target the mass market, athleisure and professional sports segments, the Group has an extensive global distribution network and more than 8,500 stores in Asia-Pacific, North America and EMEA.

ABOUT THE GROUP



CONTENTS

2	Our Brands and Distribution Network
4	About this Report
6	Chairman's Message
8	2023 at a Glance
9	Our Approach to Sustainability
18	Nurturing Talent and Contributing to Society
34	Reinforcing Responsible Value Chain
46	Preserving the Natural Environment
50	Advocating Business Ethics and Valuing Integrity
56	Appendix
56	SEHK ESG Guide Content Index
64	Glossary



OUR BRANDS AND DISTRIBUTION NETWORK



Established in 2001, Xtep is a leading professional sportswear brand with an extensive distribution network of over 6,571 Xtep Adult branded stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. As “Chinese runners’ favourite brand”, Xtep’s signature “160X” running shoe series has enabled 83 Chinese athletes to claim nearly 370 championships in prominent running events thus far. Its running shoes also ranked first among the top 100 male marathoners of all brands in overall wear rate in two consecutive years¹.



K-SWISS, a heritage American athletic shoe brand founded in California in 1966, offers performance tennis, lifestyle and fitness footwear to meet the high-performance demands of world-class athletes and trendsetters. K-SWISS developed the world’s first real leather tennis shoes, and it has been regarded as a premium sports brand across the world over the past decades.



Palladium, one of the best-known global boot brands established in France in 1947, is famous for its signature military boots and canvas shoes. From archived products rooted in its military history to new trend leading styles with innovative performance technology, Palladium empowers modern-day explorers to take their adventures to new heights.



Saucony is among the most sought-after running shoe brands in the world, offering professional and high-tech products of excellent quality. Saucony footwear combines award-winning product design with innovative performance-enhancing technology, which is perfect for both elite and casual runners. As a leading running shoe brand in the industry, the brand continues to achieve a technological breakthrough to satisfy runners’ needs and provide customers with maximum comfort and protection.



Merrell is one of the most popular global outdoor lifestyle brands, which offers products with high quality and cutting-edge technology. Adhering to the core values of design, durability, versatility and comfort, Merrell prides itself on being a pioneer to create products that make outdoor activities more enjoyable.



WORLDWIDE

RETAIL AND DISTRIBUTION NETWORK



¹ Source: 98 Run — footwear worn by top 100 male marathoners in Mainland China in 2022 and 2023.

ABOUT THIS REPORT



Xtep International Holdings Limited (hereinafter “Xtep” or the “Group”) recognises the impact of its operations on the environment and society at large, and endeavours to integrate sound Environmental, Social and Governance (“ESG”) practices into its business. In this ESG Report (this “Report”), we report our progress and performance in managing the ESG impact of our operations. This Report is an integral part of our annual reporting and should be read in conjunction with our Annual Report 2023, in particular the Management Discussion and Analysis section and Corporate Governance Report contained therein.

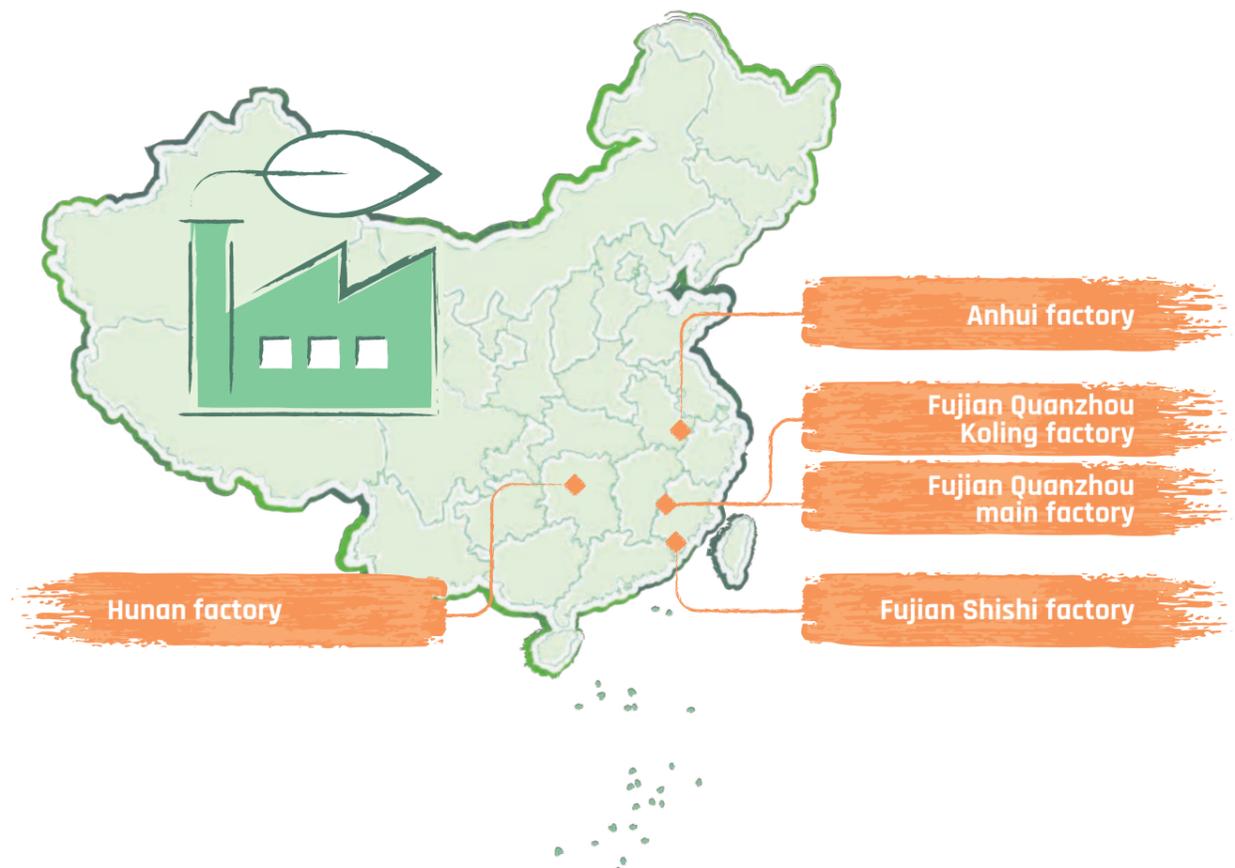
REPORTING FRAMEWORK

This Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (“ESG Guide”) contained in Appendix C2 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (“SEHK”). The SEHK ESG Guide Content Index is provided in the Appendix. The report also references the United Nations Sustainable Development Goals (“SDGs”) and demonstrate how our ESG focus and effort relates to the 17 SDGs.

REPORTING BOUNDARY

This Report provides an overview of our sustainability approach and performance for the financial year ended 31 December 2023 (“the reporting period”), unless otherwise specified.

The scope of this Report primarily covers policies and initiatives of the Group’s brand portfolio, which includes Xtep, K-SWISS, Palladium, Saucony and Merrell. The reported ESG data cover the five in-house manufacturing facilities of the Group below:



ABOUT THIS REPORT

To present a more holistic view of our ESG performance, we have expanded the boundary of the ESG data reported this year to cover Xtep Running Clubs (excluding franchised stores), 2 logistic centres — one located in Nan’an and the other located in Cizao, as well as our headquarters in Xiamen.

Unless otherwise specified, the ESG data of K-SWISS, Palladium, Saucony and Merrell are not included since the manufacturing of their products is outsourced. Also, the ESG data of our retail stores are not included as most of them are operated by our distributors.

APPLICATION OF REPORTING PRINCIPLES

In the preparation of this Report, we applied the reporting principles of the ESG Guide as follows:

Reporting principles	Application in this Report
Materiality	With inputs from our internal and external stakeholders, the Group’s material environmental and social issues were identified and prioritised. The materiality assessment process, including stakeholder engagement and the corresponding results, is disclosed in the stakeholder engagement and materiality assessment section.
Quantitative	This Report compiles and discloses quantitative key performance indicators (“KPIs”) for evaluating the ESG performance of the Group. Refer to the SEHK ESG Guide Content Index in the Appendix for the locations of the KPIs disclosed. Comparative data in 2021 and 2022 are disclosed along with 2023 where practicable to better understand the Group’s ESG performance over the years. Information on the standards, methodologies, assumptions and/or calculation tools, and the source of conversion factors used for the KPIs are stated wherever appropriate.
Consistency	Unless otherwise specified, the Group adopts consistent methodologies to gather the ESG data, enabling meaningful comparisons of ESG performance over time. Any changes in the used KPIs or methods are disclosed.
Balance	The Group strives for objective information disclosure to give stakeholders an unbiased picture of our overall ESG performance.

CHAIRMAN'S MESSAGE

In 2023, amidst the new opportunities and challenges from the external environment, the Group steadfastly maintained the unwavering focus on our long-term vision of establishing a sustainable business that generates value for all stakeholders.

As the scale of our business continues to grow, we recognise our greater responsibility to promote sustainable and responsible operations. During the year, we progressed on the goals outlined in our "10-Year Sustainability Plan" across three key themes in supply chain management, environmental protection and social responsibility. In addition to our ongoing sustainability initiatives, the Group is currently refining our ESG strategy framework to align with evolving stakeholder expectations and address the pressing environmental and social challenges.

People are at the core of our business and nurturing talent remains a key priority of the Group. We have launched various training programmes tailored for our employees to enhance their skills, foster professional growth, and empower them to thrive in an ever-evolving business landscape. Our commitment to our employees' well-being is reflected in the continuous enhancement of our flexible work policy, which expanded options for flexible hours and additional holiday benefits. To ensure an inclusive environment, we actively seek and value employee feedback. Our biannual satisfaction surveys serve as a valuable platform for employees to contribute innovative ideas and share constructive feedback to enhance their workplace environment.



CHAIRMAN'S MESSAGE

Our commitment to sustainability extends across every stage of our value chain. Throughout this year, we have reviewed and updated our Supplier Corporate Social Responsibility Management Manual to strengthen the management of social and environmental risks within the supply chain. Our revised manual establishes a more robust framework for promoting long-term responsible practices among suppliers. It incorporates guidelines aligned with core standards, laws and regulations. By upholding strict and clear requirements, we aim to empower our suppliers for sustainable operations and foster conscientious growth at every stage of production and distribution.

We remain focused on sustainable product innovation and manufacturing practices as we seek to lower our footprint and provide customers with more sustainable options. This year, we have launched our first T-shirt series containing 76% polylactic acid, a plant-based fibre with lower carbon emissions than conventional cotton or polyester. We also introduced a new line of shoes featuring natural plant-based dyes, midsoles from corn-derived materials, and outsoles with natural rubber. Furthermore, collaborating with Cainiao, our "618 Global Recycling Festival" initiative collected worn textiles and footwear to be reprocessed into other products, demonstrating our commitment to circularity.

We are dedicated to reducing our environmental footprint across our operations. We have installed a solar photovoltaic system in our Hunan factory and are planning to expand it to the Shishi factory and other sites in the future. In addition to renewable energy, we continue implementing efficiency initiatives like switching to LED lighting, optimising water usage, and investing in process improvements to lower our carbon footprint.

Sustainable practices span our entire value chain. This year, we continued strengthening the management of environmental and social impact with our suppliers. Transitioning to a more circular model, K-SWISS and Palladium launched footwear incorporating recycled nylon, PET bottles and rubber insoles, demonstrating the viability of closed-loop materials this year. Merrell also featured recycled laces and webbing in its MOAB collection. Going forward, we will explore how to increase recycled content further and support suppliers' decarbonisation journeys.

Supporting and engaging with the community has been fundamental to our corporate culture. We maintained our commitment by sponsoring various marathon events across China, promoting healthy lifestyles and well-being. Furthermore, we proudly partnered with the Chengdu FISU World University Games in July to provide equipment for young athletes and showcase Chinese sporting talent on the world stage. In response to the Gansu and Qinghai earthquakes, we demonstrated our dedication by donating RMB20 million worth of winter supplies through the China Next Generation Education Foundation. This significant contribution played a vital role in supporting frontline relief efforts and facilitating the reconstruction process for the communities affected by the disaster.

The dedication of our stakeholders to strengthening responsible practices has been instrumental in the progress of our sustainability journey. On behalf of the Group, I would like to express my heartfelt gratitude to our stakeholders' unwavering support of our commitment and sustainability endeavours. Despite the challenges that may arise, I am confident that we can overcome challenges and build a sustainable future through responsible management while shaping a positive future for the community.

Mr. Ding Shui Po
Chairman
10 April 2024

2023 AT A GLANCE

OUR ESG ACHIEVEMENTS IN 2023



CORPORATE AWARDS AND RECOGNITION

Hong Kong Investor Relations Association

- Overall Best IR Company (Mid Cap)
- Best IR by Chairman/CEO (Mid Cap)
- Best IR by CFO (Mid Cap)
- Best IRO (Mid Cap)
- Best IR Team (Mid Cap)
- Best IR Company (Mid Cap)
- Best Annual Report (Mid Cap)
- Best ESG (E) (Mid Cap)

Corporate Governance Asia

- Asia's Best CEO (Investor Relations)
- Asia's Best CFO (Investor Relations)
- Best Investor Relations Professional
- Best Investor Relations Company

Institutional Investor

- Most Honored Company — Overall — 3rd place
- Best CEO — Sell-side — 1st place
- Best CFO — Sell-side — 1st place
- Best IR Professional — Sell-side — 2nd place
- Best IR Team — Combined — 3rd place
- Best IR Team — Sell-side — 2nd place
- Best IR Program — Sell-side — 1st place
- Best ESG — Sell-side — 1st place
- Best Board of Directors — Sell-side — 1st place

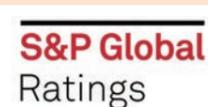
SUSTAINABILITY RATING AND RECOGNITION

MSCI ESG Rating



"BBB" rating

S&P Global CSA Scores



Ranked higher than 80% of companies in textiles, apparel and luxury goods in industry

OUR APPROACH TO SUSTAINABILITY

OUR SUSTAINABILITY GOVERNANCE STRUCTURE

At Xtep, we believe that a robust governance framework is the cornerstone of sustainable development and value creation. Our sustainability governance structure establishes a solid foundation for integrating sustainability at every level of the Group, advancing our sustainability priorities company-wide.

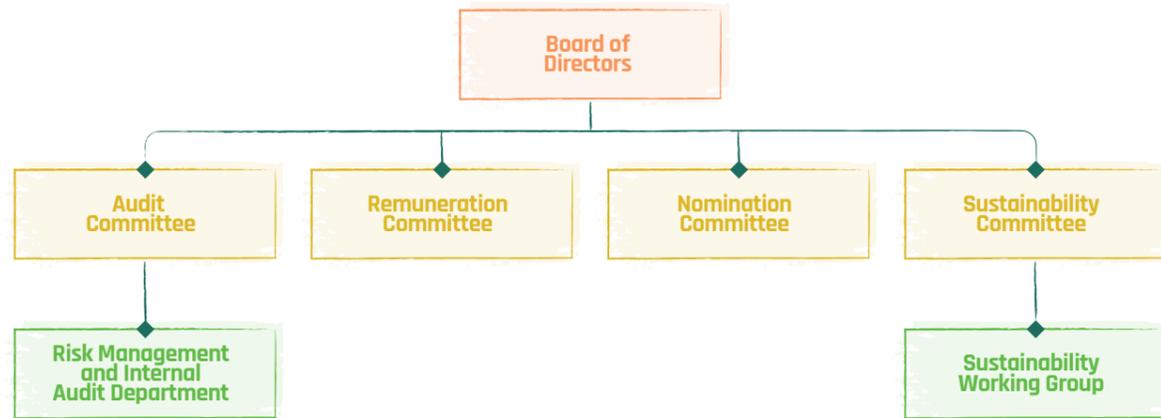
The Board retains the ultimate responsibility for the oversight of sustainability issues, and it is supported by the Sustainability Committee ("the Committee") and the Sustainability Working Group. The Committee is chaired by our non-executive director ("NED") Mr. Tan Wee Seng, and with executive directors Mr. Ding Shui Po and Ms. Ding Mei Qing, as well as independent non-executive director Ms. Chan Yee Wah, as members. The key responsibilities of the Sustainability Committee include:

- Proposing and recommending to the Board on the Company's sustainability objectives, strategies, priorities, and goals;
- Overseeing, reviewing and evaluating actions taken by the Company in furtherance of the sustainability priorities and goals;
- Reviewing and reporting to the Board on sustainability risks and opportunities;
- Identifying, monitoring and reviewing material sustainability issues that could impact the business operations and performance of the Company;
- Overseeing and reviewing the Company's sustainability policies, practices, frameworks and management approach, and recommending improvements;
- Reviewing and advising the Board on the Company's annual ESG Report and any relevant public disclosures as regards to its sustainability performance;
- Performing such further functions related or incidental to the foregoing which the Committee deems appropriate.

For details, please refer to the Terms of Reference of the Sustainability Committee.

OUR APPROACH TO SUSTAINABILITY

Structure of Xtep's Sustainability Governance Structure



Board of Directors

The Board bears ultimate responsibility for the overall direction of the Group's sustainability, sustainable development vision, strategy, goals, performance and reporting. It is supported by the Sustainability Committee in overseeing sustainability-related matters.

Sustainability Committee

The Sustainability Committee is chaired by a non-executive director ("NED") and its members include two executive directors and one independent non-executive director. The Committee meets at least twice a year and is responsible for advising the Board on the development and implementation of the sustainability objectives, strategies, priorities, and goals.

Sustainability Working Group

Chaired by an executive director who is also a member of the Sustainability Committee, the Sustainability Working Group consists of senior management of the Group's different brands and internal functions. The working group meets at least twice a year and reports regularly to the Sustainability Committee. It escalates significant sustainability risks, opportunities or trends identified to the Sustainability Committee and formulates management objectives, policies and action plans for managing said risks and opportunities.

It is responsible for planning and implementing sustainability initiatives and driving and encouraging cross-function collaboration. The working group is also responsible for the preparation of the annual ESG Report.

OUR APPROACH TO SUSTAINABILITY

Key ESG governance activities in the year

Between 1 January 2023 and the date of this Report, the Sustainability Committee has conducted two meetings to discuss and review the implementation of the Group's sustainability-related matters, such as identifying operational-specific sustainability-related risks and opportunities and monitoring the progress of our "10-Year Sustainability Plan". For more information, please refer to section — Our Sustainability Framework and Initiatives.

OUR SUSTAINABILITY FRAMEWORK AND INITIATIVES

10-Year Sustainability Plan

ESG issues are a key focus for the Group in its operations and strategic planning as it continuously works to integrate sustainability deeply into corporate growth. In early 2021, our Sustainability Committee set out the "10-Year Sustainability Plan" for 2021–2030, which centres on three themes: supply chain management, environmental protection and social responsibilities, emphasising the Group's long-term commitment to sustainable development through embedding environmental and social priorities into its business model.

Aligned with China's national climate targets to a carbon emissions peak by 2030 and achieve carbon neutrality by 2060, we have set ambitious targets across our value chain, from sustainable product innovation to low-carbon operations, aiming to mitigate the environmental impacts of our production and business activities for a low-carbon future.

Employee management and community investment are also core components of the plan. We ensure fair labour practices, provide safe working conditions, and offer our employees continuous training and development opportunities. Beyond our organisation, we support local communities through donations, volunteering, and fostering a culture of health and fitness. We aim to inspire positive change through promoting sports and using our platform to advocate for equity, inclusion, and diversity.

Achieving sustainability requires considering our entire supply chain. We have established stringent ESG assessment and capacity development targets within our supplier programmes. Through collaborative partnerships, we work to shape a more responsible future. Both potential and current suppliers are required to meet our environmental and social assessment criteria. We collectively advance our resilience for people and the planet by taking this rigorous approach.

We have achieved meaningful progress in our sustainability performance over the past three years through the effective implementation of our plan. As we intend to build upon these achievements and pave the way for a more sustainable future, we are refining our sustainability framework and strategy to stay aligned with emerging trends and to continuously progress in a direction that positively impacts our stakeholders and the environment over the long term. With continued commitment from all levels of the Group, we strive to deepen our sustainability commitment in the sportswear industry.

OUR APPROACH TO SUSTAINABILITY

OUR APPROACH TO SUSTAINABILITY

Focus areas and progress of sustainability targets

Sustainability Framework	Relevant Sustainable Development Goals ²	Key Aspects	Theme	2030 Targets	Applicable to	Progress in 2023				
						Getting Started	Work in Progress	Achieved		
 Supply chain management		 Supplier management	 Supplier assessment	<ul style="list-style-type: none"> Enhance ESG performance assessment for new supplier admission Conduct supplementary performance review regularly on Tier 1 suppliers 	The Group			◆		
			 ESG capability enhancement	<ul style="list-style-type: none"> Provide ESG training and advise ESG initiatives to existing suppliers Establish regular review mechanism to examine existing suppliers' ESG performance 	The Group			◆		
			 Environmental protection	 Environmental impact of products	 Sustainable product innovation	<ul style="list-style-type: none"> Increase the proportion of products using environmentally friendly (PLA) materials Invest in 60 apparel products using environmentally friendly materials every year Increase the proportion of products using recyclable and organic materials Increase the proportion of products using renewable materials 	Core Xtep Brand		◆	
					 Chemical use	<ul style="list-style-type: none"> Increase the penetration rate of water-based glue for shoe products to 50% or more Obtain VOC standard for vehicle air quality Increase cooperation with Bluesign dyeing auxiliaries' manufacturers in garment production Increase the penetration rate of water-based glue for shoe products to >=30% 	Core Xtep Brand		◆	
 Social responsibilities		 Employment and welfare	 Energy saving and air emissions	<ul style="list-style-type: none"> Reduction of electricity, gas, heat, and carbon emission Reduce shoes production plants power consumption and corresponding carbon emissions by 20% Reduce the use of electricity, gas, heat and other energy in apparel production plants by 20% and increase the use of clean energy by 20% Reduce office carbon emissions by 20%, reduce paper utilization rate by 20% and increase the utilisation rate of testing equipment to 90% 	Core Xtep Brand		◆			
			 Water management	<ul style="list-style-type: none"> Reduce water consumption per unit output value of shoes production plants by 10% Increase the utilisation rate of water resources in apparel production plants to 50% 	Core Xtep Brand		◆			
			 Waste management	<ul style="list-style-type: none"> Achieve 100% harmless treatment of hazardous substances and increase the general waste recycling rate to 50% for shoes products Use FSC CoC certification to produce certificates and hangtags for apparel products 	Core Xtep Brand		◆			
			 Staff incentive and welfare	<ul style="list-style-type: none"> Maintain turnover rate (excluding factory piecework employees) to less than 30% Regularly review compensation and benefits to retain the Group's competitiveness within the market 	The Group			◆		
			 Staff health and safety	<ul style="list-style-type: none"> Standardise safety procedures for all business operation links Promote occupational health and personal safety management 	The Group			◆		
			 Training and development	<ul style="list-style-type: none"> Increase the proportion of the first successor for key posts to more than 80% Increase the number of corporate culture lecturers to more than 30 Develop at least three sets of evaluation tools for each talent standard module 	The Group		◆			
 Social contribution	 Promoting sports	<ul style="list-style-type: none"> Sponsor at least 20 marathons every year (excluding the impact from COVID-19) and support more than 200,000 participants in marathon and running activities Promote the development of younger generation in China via various campaigns and activities 	Core Xtep Brand		◆					
		 Community investment	<ul style="list-style-type: none"> Donate more than RMB80 million worth of sportswear gears every year Establish volunteer team and organise public welfare volunteer activities at least twice a year 	Core Xtep Brand		◆				

² The Sustainability Development goals are 17 interconnected goals set up by the United Nations in 2015. Serving as the blueprint to achieve a better and more sustainable future for all, the 17 goals cover economic, socio-political, and environmental targets to be achieved by 2030.

OUR APPROACH TO SUSTAINABILITY

Supporting the United Nation SDGs

The Group is dedicated to operating our business in a socially and environmentally responsible manner. As a member of the global community, we recognise our responsibility to make a positive impact through supporting SDGs. The SDGs provide a roadmap for businesses, governments and societies to achieve a more sustainable future by 2030. We believe that contributing to the SDGs will create long-term value by addressing social and environmental risks.

To support the SDGs, we have identified eight SDGs that are mostly relevant to our operation and closely related to our "10-Year Sustainability Plan". Through our sustainability strategies and partnerships, we are making a positive contribution to these goals and achieving a more sustainable future for people and our planet.

SUSTAINABLE DEVELOPMENT GOALS

Xtep's Sustainability Pillars	Relevant Sustainable Development Goals ³	Our Action
 <p>Supply chain management</p>	 	<p>The Group's <i>Supplier Management Manual and Supplier Code of Conduct</i> outline our latest criteria for supplier screening and monitoring to ensure our suppliers operate in accordance with sustainable practices.</p>
 <p>Environmental protection</p>	    	<p>We have implemented various environmental protection measures in areas such as sustainable product innovation, chemical usage, energy conservation and air emission reduction to improve resource efficiency across the entire value chain.</p>
 <p>Social responsibilities</p>	  	<p>Our Staff Handbook demonstrates our commitment to fostering an inclusive culture through policies addressing equal opportunity, diversity, employee benefits and welfare. The Group also implemented a welfare system that is regularly reviewed to ensure competitive compensation and protect employee well-being. Beyond our own workforce, we actively invest in surrounding communities through regularly organised volunteering initiatives and donations.</p>

OUR APPROACH TO SUSTAINABILITY

Fostering the industry's sustainable development

As a sportswear industry leader, we recognise the importance of continual improvement to adjust to the constantly shifting needs of the market. The development of new industry standards following the latest technological advancements enables industry peers to adopt better manufacturing practices while producing apparel and footwear products.

As one of the members of the China National Textile and Apparel Council, we participated in the drafting of four industry standards during the year which include:

- Technical Specification for Textile Carbon Label
- ESG Disclosure Guidelines for Textile Enterprises
- Development and Evaluation Technical Specification of Carbon Neutral Factory for Textile Industry
- Technical Specification of The Evaluation for Carbon-Neutral Textile Products

These standards establish common metrics and definitions which lay the foundation for the Chinese textile industry to make meaningful contributions to China's "3060 Dual Carbon Targets". Our involvement in drafting such standards demonstrates our commitment to progressively advance sustainability in the textile industry in China.

STAKEHOLDER MANAGEMENT AND MATERIALITY ASSESSMENT

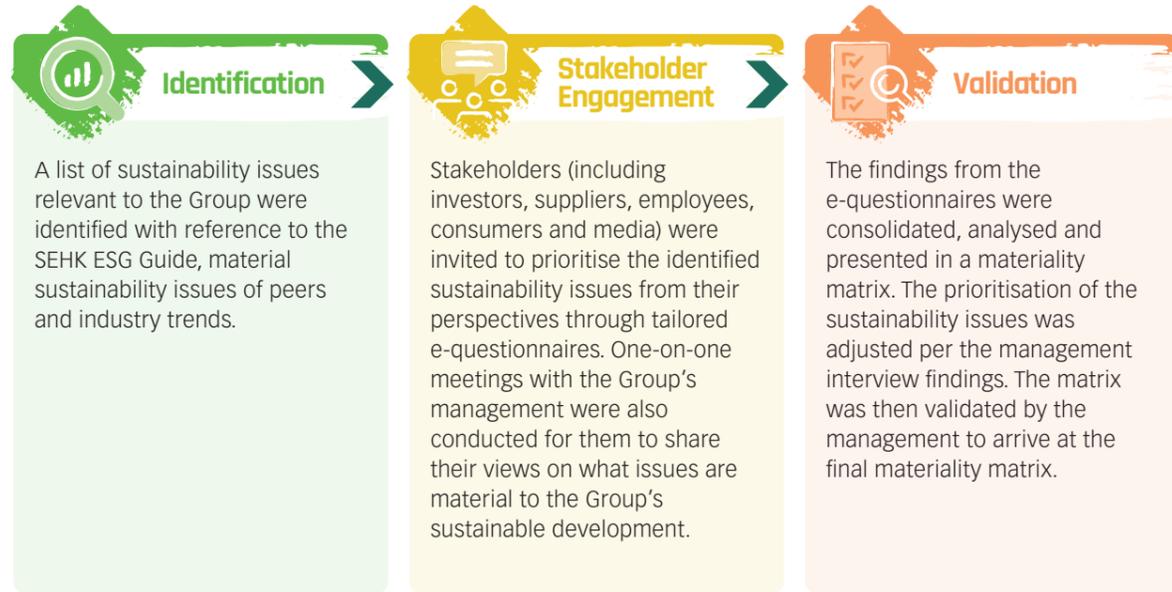
Maintaining open and transparent communication with our stakeholders is important for us to understand their views on the issues that concern them the most. We strive to foster constructive engagement to ensure our strategy aligns with their values and expectations.

In 2021, we conducted a stakeholder engagement exercise to identify the Group's material sustainability issues, and an independent consultant facilitated the process. The resulting material issues are deemed significant and impactful to our business, stakeholders, and strategy, which was reviewed and validated by the Committee.

OUR APPROACH TO SUSTAINABILITY

Stakeholder engagement process

The Company has established a stakeholder engagement process, which consists of the following three stages:



Materiality assessment result

Through engaging our stakeholders, we have identified 20 material issues relevant to them and our business. The results revealed that social and product-related issues were considered more material than environmental. The five highest-ranking issues are product green innovation, product quality and safety, employment and welfare, employee development and training, and supply chain management.

The results guide us to strengthen our focus on the key sustainability priorities to maximise our impact. We analysed and incorporated the results into our sustainability approach, strategy and reporting.

While environmental issues ranked lower in the assessment, we recognise that environmental issues represent an emerging area of focus for the sportswear industry. As consumer and societal expectations evolve, we acknowledge that maintaining a healthy environment is integral to long-term business success and serving community needs. We will continue progressing our approach and enhancing the transparency in this area.

OUR APPROACH TO SUSTAINABILITY



Environmental protection	1	Use of energy
	2	Use of water
	3	Use of packaging material
	4	Air and wastewater emission
	5	Hazardous waste management
	6	Non-hazardous waste management
	7	Climate change
	8	Greenhouse gas emissions
Employee welfare and development	9	Employment and welfare
	10	Employee development and training
	11	Health and safety
	12	Labour rights
Operating practice	13	Product quality and safety
	14	Product green innovation
	15	Supply chain management
	16	Marketing and advertisement
	17	Protection of intellectual property
	18	Anti-corruption
Social investment	19	Social contribution and charity
	20	Advocating sports development

NURTURING TALENT AND CONTRIBUTING TO SOCIETY

Empowering and investing in our employees has always been the core of our culture and values. We recognise that they are the driving force behind our ongoing innovation and success. At Xtep, we highly value our employees and strive to create a diverse and inclusive workplace where our talents can thrive.

The Group demonstrates our unwavering commitment to the communities where we operate by actively supporting charitable initiatives through in-kind, monetary donations and encouraging employee volunteering. By actively engaging in these endeavours, we aim to make a meaningful and lasting impact on the community we serve.

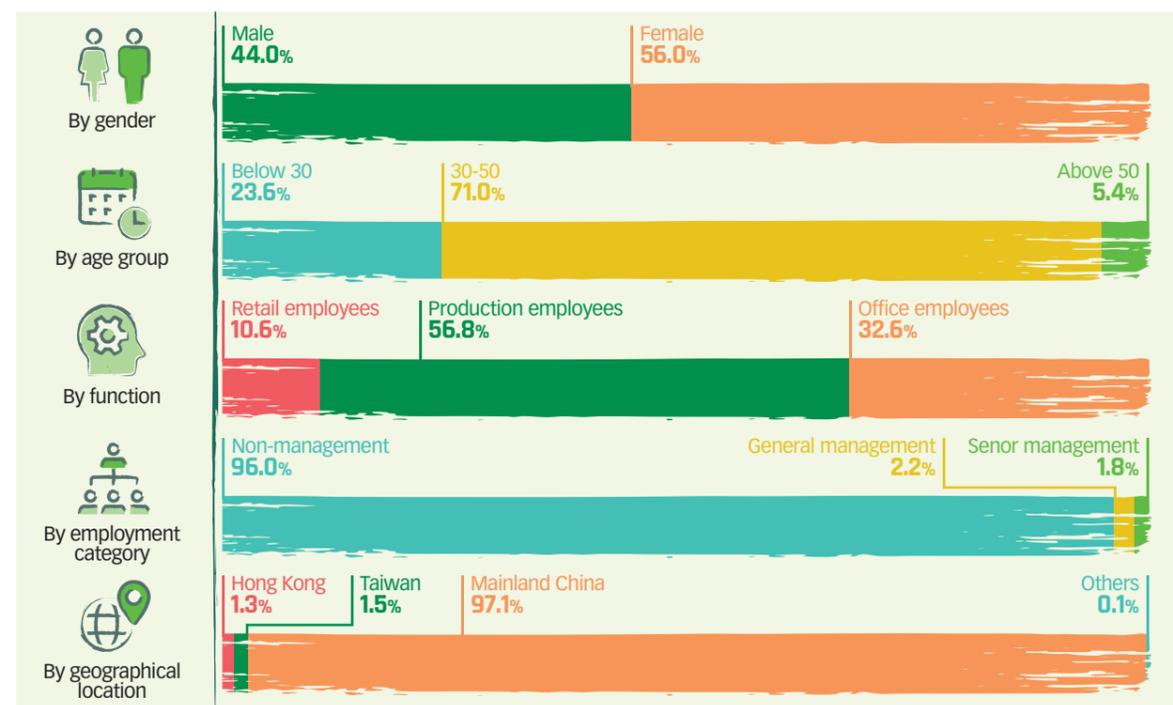
SUPPORTING THE GROWTH AND WELL-BEING OF OUR PEOPLE

We recognise the essential contribution of our employees to the Group's continuous and sustainable growth. The Group's staff management practices focused on attracting and retaining talents by offering competitive compensation and extensive training opportunities and fostering a caring and supportive culture. Our commitment is to create a safe, positive, and talent-nurturing work environment where our employees are empowered to leverage their strengths and pursue their potential with equal opportunities.

Staff portfolio

Highly skilled and talented employees form the foundation of the Group's long-term growth and success. As of 2023, we had approximately 9,100 employees and the breakdown is as follows.

2023 Staff Breakdown



NURTURING TALENT AND CONTRIBUTING TO SOCIETY

Talent retention

The Group adheres to the "Labour Law of the People's Republic of China" and the "Labour Contract Law of the People's Republic of China", ensuring that recruitment and employment practices are conducted fairly and consistently. Our comprehensive Staff Handbook can address key issues such as compensation and dismissal, recruitment and promotion, working hours, rest periods and so on to foster equal opportunities within the workplace. This year, our employee turnover rate is 27.4%, which remains below our target rate of 30.0%, supporting our long-term goal of retaining talent³.

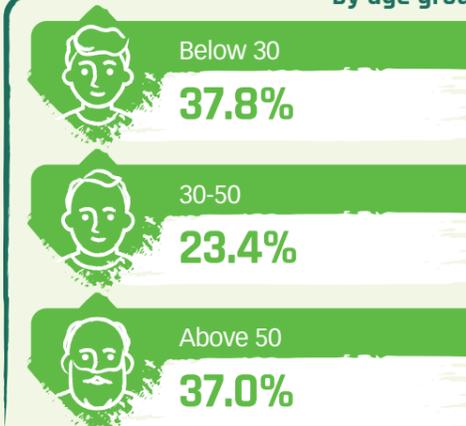
We have implemented a salary and benefits system that is fair and competitive. Employee remuneration is determined by considering factors such as qualifications, experience, job scope, performance, and prevailing market conditions. To ensure that our compensation remains attractive, the Group goes beyond the minimum wage requirements and regularly assesses market salary data to ensure the reasonableness of our compensation packages. In addition to basic wages, we have introduced an employee stock incentive plan designed to incentivise and reward long-term career growth within the Company.

The Group has implemented a robust performance management system to assess employee performance and make informed decisions regarding promotions and salary adjustments. This system incorporates scheduled discussions where employees receive valuable feedback from their supervisors. Promotions and salary adjustments are based on documented appraisal results, with exceptional performers eligible for additional bonus incentives. Additionally, we conduct regular talent reviews to identify areas for improvement and recognise high-potential employees within the Group.

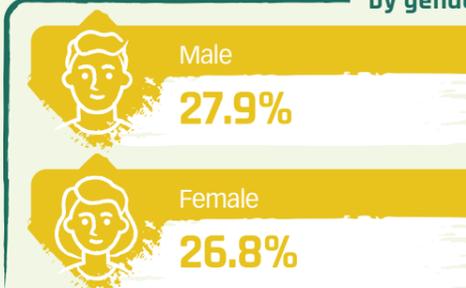
To improve operational efficiency and foster employee productivity, we have established a Staff Position Management System that clearly defines each position's grade, title, and responsibilities. We have also updated our recruitment management system and internal transfer process, which enhances talent retention and improves the procedures of our recruitment process.

Employee turnover in 2023

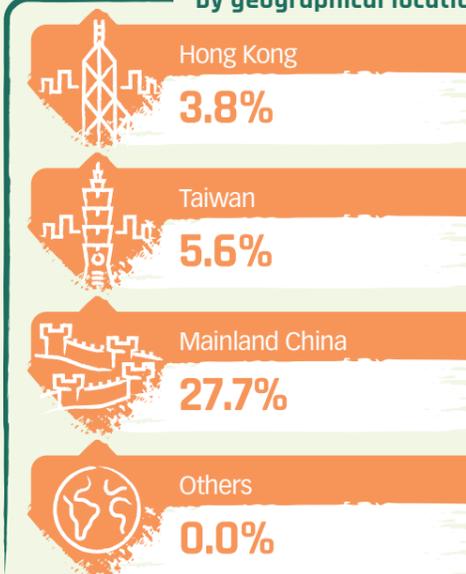
by age group



by gender



by geographical location



³ The reported turnover rates excludes the factory piecework employees.

NURTURING TALENT AND CONTRIBUTING TO SOCIETY

Child and forced labour

The Group's dedication to labour rights and standards cultivates a work environment where all employees feel supported, respected, and able to perform at their best. Our Staff Handbook also includes policies against child and forced labour, along with other welfare and benefits information. This handbook outlines our commitment to maintaining an inclusive and transparent workplace and safeguarding our employees against discrimination due to gender, age, ethnicity, nationality, marital status, religion, etc.

Consistent with our commitment to ethical practice, the Group strictly prohibits the use of child and forced labour across all operations to comply with relevant laws and regulations. To enforce this, we have rigorous checks and controls during the hiring and onboarding processes to prevent the employment of underage individuals. We also conduct regular reviews of our employment practices to ensure fairness and legality. During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding labour standards.

Our commitment to ethical labour practices extends beyond our own operations to also include our supply chains. We evaluate both potential and existing suppliers on their adherence to basic labour rights, as well as the standards of accommodation and food services they provide to their employees, as part of our effort to uphold the legitimate rights and interests of all workers. In 2023, we did not observe any incident of child or forced labour during our supply chain evaluation exercises.

Labour health and safety

Protecting the health and safety of our employees is our top priority. This year, we have completed and passed the recertification for the ISO 45001:2018 Occupational Health and Safety Management System (OHSMS), which we use to manage and reduce occupational health and safety risks. The Group also complies with relevant standards, laws, and regulations and has developed standard operating procedures, working guidelines, and manuals to guide the work procedures and processes.

Our proactive approach to occupational health and safety is multi-faceted, reflecting our unwavering pledge to provide a safe work environment. We have targets, standardised procedures, and emergency response plans for identified risks to promptly eliminate potential safety hazards. We also conduct regular reviews of our Occupational Health and Safety Management System to ensure the effectiveness of our preventative strategies and corrective measures are applied appropriately.

The Group has established an Occupational Health and Safety Committee responsible for reviewing and regularly reporting on health and safety performance. Each shift has a professional health and safety officer present to inspect whether frontline workers comply with our safety procedures during the production process. All workers also receive a safety briefing at the start of each shift and a debrief at the end, reporting any potential safety hazards observed during the shift. This practice serves as an effective routine reminder to remind employees to maintain a safe working environment. The billboards and LED display screens we have installed in the office and factory enable employees to stay informed about the latest laws and regulations related to fire safety, food safety, and workplace safety.



NURTURING TALENT AND CONTRIBUTING TO SOCIETY

We have consistently maintained and repaired our fire safety equipment and conduct regular and surprise inspections of personal protective equipment. Special equipment, fire-fighting appliances, monitoring systems, and machinery are routinely maintained and upgraded to provide workers with the required protective gear. Additionally, we conduct an evaluation of the current occupational hazards in our facilities and operations every three years, and yearly inspections are performed to identify occupational risks. Through these regular evaluations and yearly inspections, we identify any safety concerns in our working environment and ensure compliance with standards regarding potential occupational hazards. There was no major safety risk identified in the assessment during the year.

The Group has also introduced intelligent production equipment, such as automatic cutting and computerised sewing machines, to minimise occupational risks during production. For any potential risks, the Company has formulated Safety Plan Management Regulations and Emergency Plans, handling possible accidents according to the "No neglect" principle.

We are not aware of any non-compliance with laws and regulations in 2023 that had a significant impact on the Group with respect to occupational health and safety. Of the 33 work-related injuries that occurred within the year, the majority were commuting accidents that happened during the journey to and from work. All cases have been reported to the local authorities for occupational injury assessment and follow-up action.



NURTURING TALENT AND CONTRIBUTING TO SOCIETY

Occupational health and safety performance in 2023⁴



Employees' health and wellbeing training

To maintain a high level of health and safety awareness, we regularly conduct emergency drills, enabling our staff to respond appropriately to any incidents, enhancing their preparedness, and identifying potential shortcomings in our emergency plans. We also provide work safety and injury prevention training to new joiners, internally transferred employees, and return-to-work staff to ensure they are aware of the potential workplace hazards. Our management team also collectively analyses accident cases to identify the reasons for happening and establish preventative measures. This year, we also conducted additional occupational health assessments for workers in special positions.

In addition to occupational health and safety, we are committed to supporting the health and wellbeing of our employees. The Group provides employees with complimentary health checks annually to identify potential health issues and boost employee morale in the workplace. To enhance their overall wellness, we have launched health awareness training programmes to provide health tips such as cold prevention and emotional management.

Training and development

Supporting our employees and helping them advance their skills is an important part of our efforts to build a strong and productive workforce. The Group focuses on the enhancement of training and development initiatives that enable our employees to strengthen skills and foster their adherence to our corporate values.

Overall trainings for the Group in 2023⁵

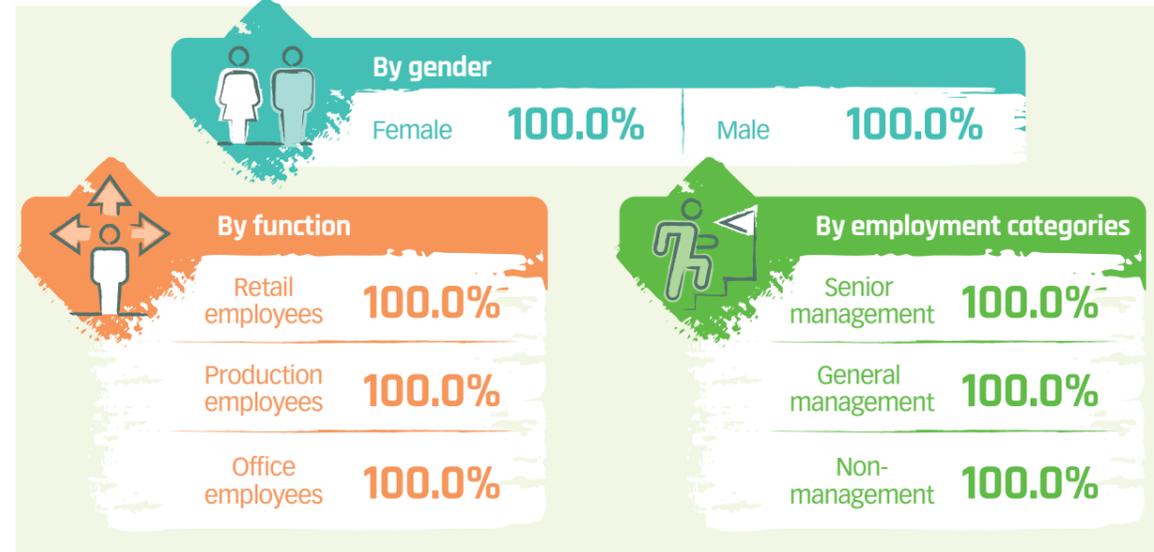


⁴ Work-related injuries reported refer to cases reported to the local Human Resources and Social Security Bureau for an occupational injury assessment. The lost day figure reported is the aggregate of the work-related injury leave periods indicated by the assessments.

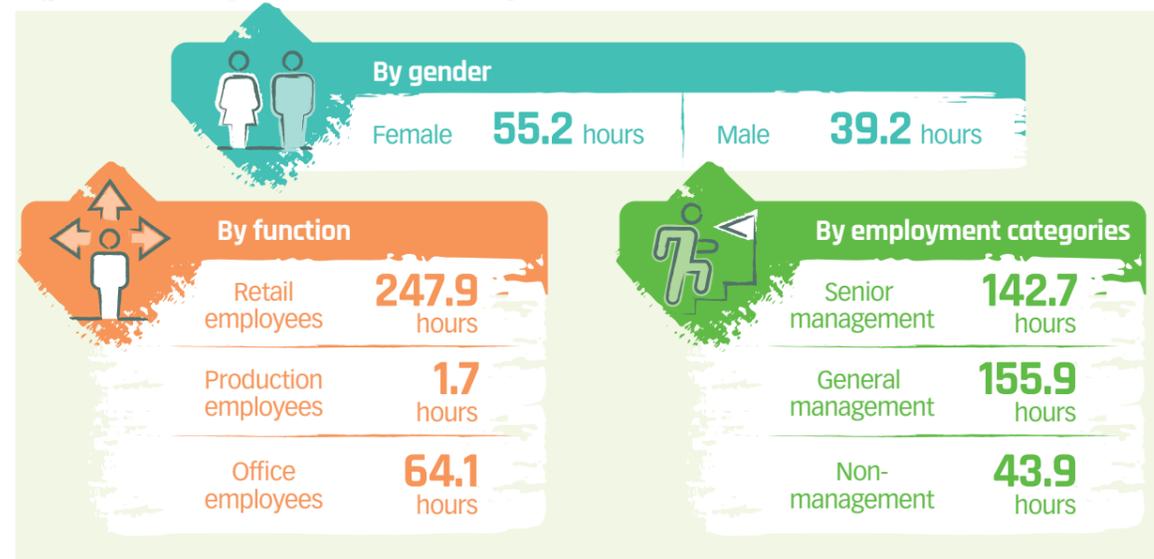
⁵ Included employees who left the Group during the reporting period.

NURTURING TALENT AND CONTRIBUTING TO SOCIETY

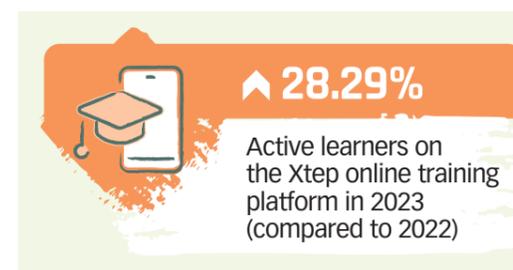
Percentage of employees trained in 2023⁵



Average training hours in 2023



By exploring various training programmes as fuel, our Xtep Talent Centre is the key engine of the growth and advancement of our employees which provides an extensive selection of courses to enhance our staff's proficiency and productivity. It comprises specialised training courses and an online training platform to tailor professional development programmes to ensure targeted and effective skill enhancement. In 2023, our online training platform has recorded 3,533 active learners.



NURTURING TALENT AND CONTRIBUTING TO SOCIETY

The training courses offered by our Xtep Talent Centre can be categorised into two types as below:



Furthermore, we have strengthened our collaboration with educational institutions, actively developing fresh and specialised talents through campus recruitment and social recruitment in order to continuously provide an excellent talent pool to support the Group's development strategy. Throughout the year, our ongoing collaboration with the Beijing Institute of Fashion Technology and Jiangnan University has continued to cultivate talents in the footwear and apparel industry. We will keep engaging with educational institutions proactively to identify and attract promising candidates with the skills and potential.

Key training programmes in 2023

The Navigator Programme

The Navigator Programme develops the leadership skills of mid-level and senior management within the Company, aiming to accelerate practical experience in their roles and enhance their leadership qualities. The Programme is structured in four components: course-based training, discussions on business topics, post-course assessments and the development of a leadership mindset. Through a combination of classroom learning and performance evaluation, the Programme helps participants develop competencies in key areas such as strategic planning and operational management.



NURTURING TALENT AND CONTRIBUTING TO SOCIETY



The Pacesetter Programme

The Pacesetter Project primarily involves inviting trainees to share their stories on special topics. After the offline session, learning is further disseminated within each department. Trainees are required to conduct internal training within their own departments or conduct workshops integrating with actual business operations, which are set up as projects on the Xtep online training platform "Tezhihui". We also organise various group-based activities to enhance team cohesion, explore corporate culture and reinforce our core values.

NURTURING TALENT AND CONTRIBUTING TO SOCIETY

The Career Accelerator Programme

The Career Accelerator Programme serves as a knowledge exchange platform that facilitates the sharing of professional insights within and outside the organisation. By linking operational knowledge across front, middle and back office functions, we seek to strengthen experience transfer and empower employee growth.

This year, the Programme featured 11 online and in-person courses delivered by instructors who are top performers, trainees and industry experts. A total of 3,347 attendees participated in the courses, with an average annual course satisfaction rating of over 92%. The Career Accelerator Programme will continue synergising functional expertise to reinforce organisational excellence and maximise knowledge circulation in support of career development and organisational objectives.



NURTURING TALENT AND CONTRIBUTING TO SOCIETY

Alignment Programme for Shared Core Values

To embed the Group's core values across all levels, we have launched the Alignment Programme for Shared Core Values. It begins with soliciting input from key leaders to identify the shared values. These values were then formalised into a set of guidelines.

Subsequent activities work to embed and promote the values in day-to-day operations, such as empowering certain employees as cultural ambassadors, hosting in-person workshops across offices, and developing online learning modules. Short videos and memos from executives, as well as 7 curated stories and 20 case studies focusing on "perseverance", "innovation", "integrity", and "collaboration", further brought the values to life across the Group. By employing a multidimensional approach, this Programme has made progress in culturally aligning all staff with the shared vision and values.



Employee's engagement, leisure and welfare

We are dedicated to the holistic well-being of our employees. From expanded benefits to empowering culture initiatives, our goal is to create a supportive environment where people can be their best selves both at work and beyond.

To boost employee wellness and morale, we have expanded our employee welfare initiatives by enhancing our existing benefits like statutory insurance, paid leave, and regular medical checkups. We have also upgraded our staff canteen offerings to include diverse nutritious and delicious meal options. As part of nurturing a supportive corporate culture, we have launched "Sunshine Sharing" sessions for employees to share inspiring stories to celebrate achievements and foster belongingness. Demonstrating our dedication to employee well-being and engagement, we have established various interest clubs to cultivate a running culture.

We host celebrations on occasions like International Women's Day, Labour Day, and other family-centric dates, such as Mother's Day and Father's Day. Through these events, we recognise the diverse roles our employees play both on the job and in their personal lives. By acknowledging their responsibilities, we aim to foster a supportive environment where work-life balance is valued. We also present birthday gifts to our employees to strengthen bonds with them and reinforce our commitment to a supportive culture. To help our employees weather unexpected financial difficulties, we created an Employee Mutual Fund that provides financial assistance during hard times. This fund helps alleviate employees' stress so they can dedicate their efforts to their work, assured that basic needs will be covered if unforeseen circumstances arise.

NURTURING TALENT AND CONTRIBUTING TO SOCIETY



Flexible work arrangements

To better align with modern working patterns and accommodate varying needs, we updated our Attendance Management System to introduce flexible check-in options. Employees can now choose their preferred working hours based on their roles and responsibilities. We also enabled remote working capabilities, enabling staff to maintain work-life balance by working from home when needed. Through these changes, we aim to foster an agile and supportive culture where employees feel trusted to perform at their best through schedules that fit with their diverse personal and professional demands.



Enhanced family visit leave for expatriates

Recognising strong family bonds are integral to an individual's wellbeing and happiness, we have introduced a paid leave policy that provides time off for those undertaking long-term work assignments away from their families. By easing the emotional strain of prolonged separation, we aim to uplift our employees' spirits and fortify enthusiasm even amidst the challenges of distance.



Supportive measures for working mothers

We have taken steps to establish a family-friendly workplace by introducing nursing rooms within the office premises. These private spaces enable working mothers to attend to their infants' needs during the workday. Our aim is to cultivate an inclusive workplace where all staff can balance both their family and work responsibilities.

NURTURING TALENT AND CONTRIBUTING TO SOCIETY

Diversity, equity and inclusion

The Group places great importance on fostering a corporate culture of Diversity, Equity and Inclusion (DEI). To reinforce and solidify these important values, we have corresponding policies in our *Staff Handbook* and have implemented practical measures regarding DEI. We are committed to equal employment opportunities for all staff and ensuring a fair and transparent recruitment process while also continuously working to increase the proportion of women in management roles.

Employee feedback is crucial for us in shaping a diverse and inclusive work environment. We conduct satisfaction surveys twice a year, allowing employees to provide feedback on the performance of our human resources and administrative departments. Furthermore, we strictly adhere to legal provisions guaranteeing employees' rights to collective bargaining and freedom of association. Our employees are encouraged to join the company's union, which currently has over 1,700 members.



To ensure equity and justice for all employees, we have established a multi-tiered Administrative Team to facilitate communication and coordination between levels. We have also set up a review panel to address employee grievances, which includes members from human resources, the complainant's supervisor, and three individuals who are at the same level as the supervisor and responsible for the department that has a working relationship with the complainant. The panel is tasked with providing a fair and balanced assessment of any complaints, thereby maintaining a just and inclusive work environment for all.

CONTRIBUTING A POSITIVE IMPACT TO OUR SOCIETY

We are acutely aware that a key driver of sustainable development is the fulfilment of social responsibility. Therefore, the Group has been dedicatedly engaged in various initiatives to foster sustainable growth and address societal needs, bringing a positive impact on the communities where we operate our businesses. Looking ahead, we will continue to leverage our corporate strengths to participate in charitable events.

Promoting sports and active lifestyles

Xtep is committed to enhancing social welfare and actively investing in the communities we serve. We inject vitality and promote healthy living through strategic initiatives such as sponsoring marathon events which encourage residents to embrace active lifestyles via recreational running. We also develop innovative running products, empowering athletes with upgraded performance products and making an active lifestyle even more enjoyable.

Xtep Running Clubs (XRCs)

In response to the rising health awareness and the burgeoning running trend in Mainland China, we have expedited the establishment of Xtep Running Clubs (XRCs), creating value for over two million members of the Xtep Runners Club. As of 31 December 2023, there were 65 XRCs spread across Mainland China.

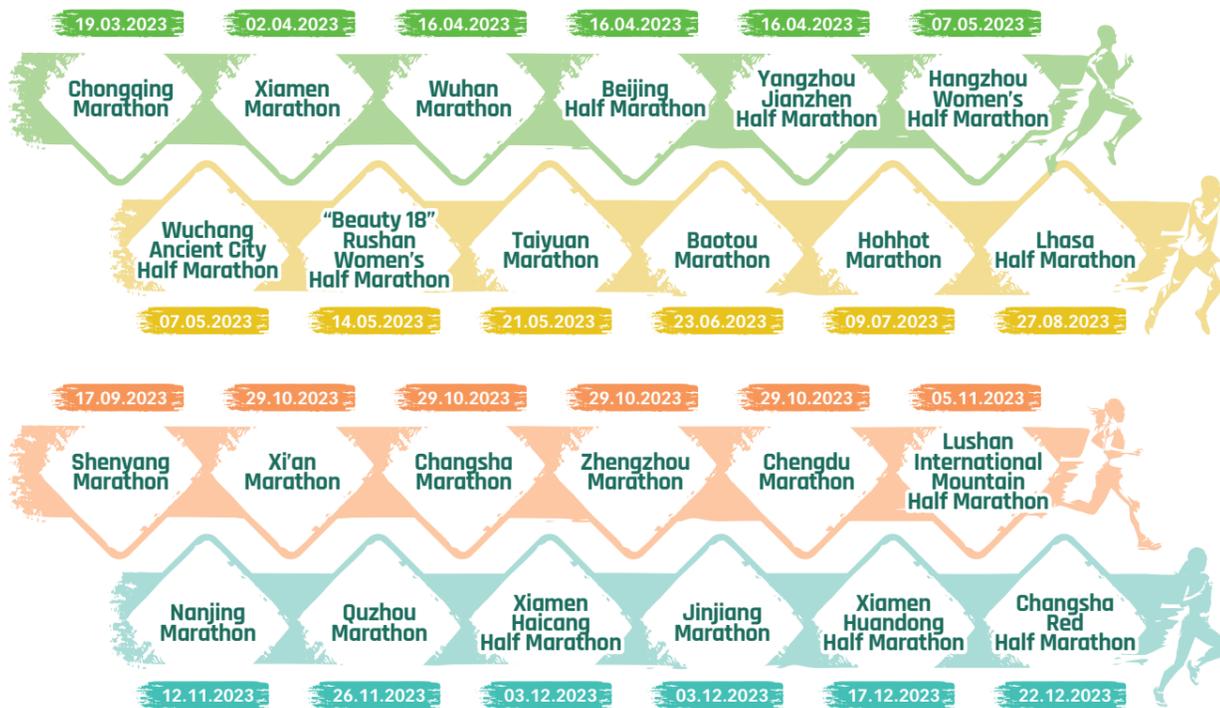
Our clubs aim to integrate running into people's daily busy routines, providing professional services that facilitate and enrich the running experience. The XRCs are integral to Xtep's running ecosystem, offering comprehensive professional running services that include consultations, support for running groups, and facilities for mobile device charging, baggage storage, and showers.

NURTURING TALENT AND CONTRIBUTING TO SOCIETY

Running event sponsorship

We recognise the transformative power of sports in bringing communities together and enhancing individual wellbeing. Sponsoring large-scale running events like marathons is central to our mission of promoting healthy and vibrant societies. Emerging from the pandemic, these events took on new meaning — reconnecting communities while encouraging physical activity and mental resilience. Throughout 2023, we proudly sponsored 24 physical marathons in Mainland China.

List of marathons sponsored by Xtep



2023 Saucony Endorphin Elite Half Marathon ended without a hitch

On 26th February, the 2023 Saucony Endorphin Elite Half Marathon kicked off in Qujing, Yunnan. A total of 36 elite runners, wearing the "Endorphin Elite" shoes, raced under extreme conditions on the plateau, pursued their running dreams and continuously challenged.

The marathon marked the first step of Saucony's "Boulders Project," which was part of the "Take Courage" declaration of its 125th anniversary. The project aims to support young athletes by providing them with top-of-the line equipment and opportunities to participate in races, helping visionary young runners to achieve their dreams.



NURTURING TALENT AND CONTRIBUTING TO SOCIETY



Xtep sponsored the charity walk organised by Youth Outreach in Hong Kong



On 18th November, Xtep joined as a sponsor for the "YO! Let's Walk the Road 2023" event, organised by Youth Outreach in Hong Kong. This charitable walk focused on supporting youth facing challenges, with the objective of nurturing them into conscientious community members. Xtep also invited employees to participate in the event, and they all enjoyed the various booths that youngsters erected as their means of positively contributing to society. The initiative was centred around helping these young individuals on their journey to become upstanding contributors to society, with Xtep's employees actively participating and appreciating the young people's efforts to engage with their community positively.



Sponsorship in Chengdu FISU World University Games to help promote youth sports development

Following a two-year postponement, the Chengdu FISU World University Games took place from 28th July to 8th August. Xtep, as an official partner of the Games, exclusively provided official equipment support to help young people realise their dreams and showcase the power of young Chinese to the world.



K-SWISS sponsored Oakley Hong Kong Open Pickleball Championships 2023



K-SWISS has been a dedicated supporter of tennis and has taken an active role in promoting pickleball in recent years. On 5th November, K-SWISS sponsored and partnered with the Oakley Hong Kong Pickleball Championships 2023, the largest international pickleball tournament in Hong Kong. K-SWISS supplied sports shoes to the event organiser and guests for the day and offered high-performance tennis shoes as prizes to the winners.

NURTURING TALENT AND CONTRIBUTING TO SOCIETY



Sponsorship in UBS HK Family Sports Day to help promote physical health



Saucony provided sportswear support for the UBS HK Family Sports Day on 28th October which serves as a flagship gathering for UBS staff and their families, aimed to promote physical health, with exceeding 700 participants, the event also invited two outstanding athletes, Stephanie Au and Shek Wai Hung, to share their inspiring stories and celebrated one of the colleagues, Anson Chan, who recently won a silver medal in roller skating at the Asian Championship.

DONATIONS AND CHARITY EVENTS

At Xtep, we are committed to operating responsibly and giving back to the communities in which we operate. We actively seek to better our communities by cultivating a culture of civic engagement and participation. The Group conscientiously invests resources into impactful community initiatives by partnering with local charitable organisations and encouraging employee volunteering. In 2023, we have contributed sportswear and financial donations exceeding RMB77 million to various community programmes.

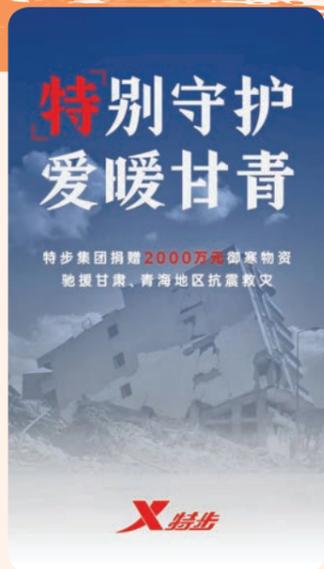


Donated over **RMB77 million** worth of sportswear and cash donation in 2023



Support Earthquake Relief Efforts for Gansu and Qinghai

On 18th December 2023, a 6.2 magnitude earthquake struck areas of Gansu Province, causing tragic loss of life and widespread damage in multiple regions. The disaster occurred in a high-altitude territory with harsh weather, significantly impacting local infrastructure and services. Responding to the crisis, Xtep donated RMB20 million worth of winter through the China Next Generation Education Foundation, which aimed to support emergency rescue efforts and the reconstruction for the affected communities.

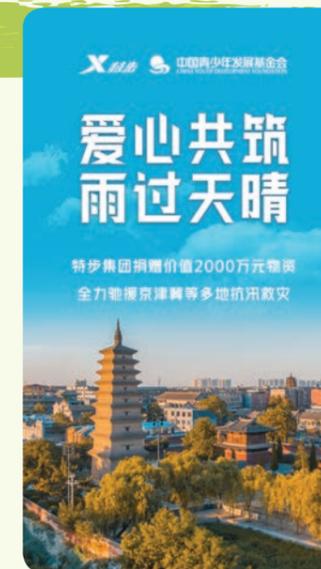


NURTURING TALENT AND CONTRIBUTING TO SOCIETY



Assist flood-hit Beijing-Tianjin-Hebei region and Northeast China

In August 2023, the typhoon "Doksuri" brought torrential rains, resulting in flooding and geological hazards across northern regions of China. To support these relief efforts, Xtep donated RMB20 million worth of supplies via the China Youth Development Foundation. The aid provided by Xtep strengthens the emergency rescue operations and lays the foundation for long-term recovery and reconstruction of the impacted regions.



An additional RMB100 million will be donated by Xtep in collaboration with the China Next Generation Education Foundation in the coming four years to support youth development



For many years, Xtep has supported the Love Sets Sail — Special Growth Programme through the China Next Generation Education Foundation. This initiative aims to promote active lifestyles and sports development among youth in remote areas. In June 2023, the Group promised to donate an additional RMB100 million worth of sportswear in the coming four years, expanding this long-running youth sports development partnership to benefit more young people.

Since launching seven years ago, the Group has donated nearly RMB200 million worth of resources through this initiative. It has reached over 3,700 schools and 570,000 students across 20 provinces.

REINFORCING RESPONSIBLE VALUE CHAIN

We understand that our impact extends beyond our own operations to the different stages of our value chain. Therefore, we have implemented rigorous supply chain management measures aiming to minimise our environmental footprint, promote social welfare, and ultimately drive sustainable development along the value chain. We seek to partner with suppliers who demonstrate a share our commitment to responsible practices, and encourage their continuous improvement.

PROMOTING GREEN PRODUCT INNOVATION

Green materials and sustainable design along the value chain

The sustainability of product starts from the design of the product, therefore we take practical steps to incorporate environmental considerations into our sportswear products. To achieve our goal of minimising the environmental impact of our products, we focus not on our own manufacturing activities, but also the material selection and end-of-life disposal.

In terms of raw material, we have continued to steadily increase the use of environmentally friendly materials in our products and address the environment impact of material used. For example, the production of natural fibres that are key to our clothing productions could be resource-intensive, and may lead to various environmental pollutions and health implications. Therefore we are actively pursuing the use green alternatives, such as organic cotton, recycled plant materials, and biodegradable materials to produce our clothing and footwear products. Below are some examples of green materials and their latest application in our products:

REINFORCING RESPONSIBLE VALUE CHAIN



Organic cotton and recycled cotton yarn products

We are expanding the use of organic cotton and recycled cotton yarn in our product range, and has launched a variety of clothing items that are made of organic cotton yarn that are certified to the Global Organic Textile Standard.



Recycled materials

Besides recycled cotton, we are also introducing other recycled materials to reduce the amount of virgin materials, reduce waste generation and save energy. We have a close collaboration with Covestro, a leading producer of advanced polymers and high-performance plastics, to create products made of bio-based materials derived from plant oils, plant waste, residues, and cooking oils.

Besides the above collaboration, we are also using recycled materials in different parts of our shoe products, most of which are certified by relevant eco-standards. For example, we used PET materials that meet the Global Recycled Standard (GRS) in various parts of our shoe products, including uppers, linings, shoelaces, webbing, and midsole fabric. We also have T-shirts made from fibre derived from recycled plastic bottles, first shown as the licensed product of the 2023 Wuhan Marathon, offering both functional design and sustainable materials simultaneously.

The Palladium brand has also incorporated different eco-friendly materials, with these sustainable materials constituting 30%–40% of the overall product composition. Palladium applies different proportions of recycled materials in its shoe products tailored to the specific functional needs of each shoe design, ensuring that the shoes are not only environmentally friendly but also uphold the high-quality standards expected of the brand.



Bio-based and biodegradable materials

During the year, we continued to promote the application of polylactic acid (PLA) materials derived from renewable resources like corn and sugarcane into our products. We are also exploring the use of other biodegradable materials such plastics from palm oil and other bio-based materials. For example, Merrell introduced camping shoes that uses a seaweed-blended rubber. Saucony also adopted various bio-based materials, such as natural plant dyes derived from corn for shoe uppers and natural rubbers for shoe soles.

In 2023, the Xtep brand also introduced “coffee yarn” in six shoe products, which combines coffee grounds onto the yarn surface and changes the characteristics of the filament. This results in a faster drying time compared to conventional cotton yarn, and with additional odour absorption properties. The production process of coffee yarn also saves energy and reduces the environmental impact of the products.



Other materials

To further minimise our environmental impact, we introduced eco-friendly waterproof membranes to our products and continued to increase the use of water-based adhesives in our production processes. The water-based adhesives were SGS-certified and comply with the stringent requirements of California Proposition 65 and the European Union’s REACH Regulation.

We sourced leather from tanneries with the Leather Working Group (LWG) Gold certification, which ensures that the leather production meets the highest environmental and quality standards.

Other notable examples include Palladium’s use of OEKO-TEX certified materials, and use of Forest Stewardship Council (FSC) — certified inner paper boxes.

REINFORCING RESPONSIBLE VALUE CHAIN



Xtep launched the first carbon footprint T-shirt series

To reduce its carbon footprint and care for the environment, Xtep introduced carbon footprint labels for the first time on our T-shirts made with 76% PLA. The PLA T-shirt has a carbon footprint of 7.85kg CO₂e/piece (assuming the product is incinerated at its end-of-life), which is 47.7% lower than cotton T-shirts and 90.4% lower than polyester fibre T-shirts.



Saucony's TRIUMPH RFG running shoes



On 1st August, Saucony unveiled the TRIUMPH RFG, which incorporates a cotton upper of the shoes dyed with natural plant-based dyes and a midsole made from 55% corn-based materials. Additionally, the outsole is crafted from 80% natural rubber.

Besides green materials, we also incorporate green design concepts into our products. For example, we made various components of our footwear detachable so that customers can easily recycle the components instead of direct disposal, reducing the end-of-life environmental footprint of products.

REINFORCING RESPONSIBLE VALUE CHAIN

Advocating sustainable consumption

We are dedicated to enhancing the sustainability of our sportswear by actively exploring the use of various recyclable and bio-based materials in our products. To provide consumers with more sustainable options, we are introducing new eco-friendly products every season.

In 2023, Xtep developed 11 eco-conscious shoe products, with 5 in the sports category including our flagship competitive running shoes and 6 in the lifestyle category. We successfully transformed bio-based eco-products from concept to mass production, especially in our leading competitive running shoes, achieving a leap from eco-friendly concepts to performance. We are glad to see that consumers responded positively to the green materials and design concepts of our products, and will stay committed in development more eco-friendly products for consumers.



Promoting circular fashion through the "618 Global Recycling Festival"



As consumers increasingly prioritise social responsibility in making purchase decisions, Xtep is embracing the concept of circular fashion. Our "Recycle for the Future" concept aims to inspire consumer support and purchase eco-friendly products. We are not just creating apparel but fostering a sustainable culture where each product is a step towards a more responsible future.

In line with our commitment to sustainable development, Xtep actively participated in the "618 Global Recycling Festival" in collaboration with Cainiao, aiming to integrate green living into the daily lives of our consumers. During the festival, we collected worn-out shoes and garments from consumers for further recycling. For example, the soles of old shoes were recycled into rubber materials and transformed into sports and yoga mats, while discarded clothing was processed into recycled fibres for producing eco-friendly bags and storage containers.

Participants of the recycling initiative were incentivised through rewards that included green energy points and an exclusive Xtep "Step into Green" eco-friendly tote bag to encourage recycling and reuse. This initiative had fostered environmental awareness among consumers and allowed them to realise the recycling potentials of worn-out apparel items. Riding on the success of the event, we will continue incorporating circular economy considerations into our operations and promote consumer awareness on the topic.

REINFORCING RESPONSIBLE VALUE CHAIN

SUPPLIER ASSESSMENT AND MANAGEMENT

As a leading sports brand, we are dedicated to expanding our sustainability efforts throughout our supply chain. Leveraging our market leadership and purchasing power, we encourage suppliers to embrace sustainable practices. To ensure that suppliers align with our sustainability requirements, we have integrated ESG criteria into our supplier assessments for both prospective and existing suppliers.

In May 2023, the Group updated its Supplier Corporate Social Responsibility Management Manual in line with the China CSR Due Diligence Guidance and the relevant requirements of the industry to better achieve the sustainability with its critical business partners. The Manual is now available in the Xtep website.

Our supplier portfolio

Our production relies heavily on the materials provided by our suppliers, from whom we source most of our product components. As of 2023, 69% of our footwear and 89% of our apparel manufacturing were outsourced. The Group engages with 573 suppliers globally, with 569 in Mainland China and 4 overseas.

We classify our suppliers into different tiers to better understand our supply base. To strengthen risk management across our supply chain, we have refined definitions of supplier classification this year by broadening the Tier 2 scope and including raw material providers as Tier 3. As of year-end, we have 150 Tier 1 suppliers and 423 Tier 2 suppliers. Going forward, improving engagement with Tier 3 suppliers remains a focus as we seek to optimise sustainable operations.

Definition:

Tier 1	Suppliers that provide finished products.
Tier 2	Suppliers that provide fabrics, accessories, packaging materials and other raw materials for Tier 1 garment suppliers; and suppliers that provide processing procedures such as embroidery, washing for Tier 1 suppliers.
Tier 3	Suppliers of raw materials (e.g. yarn, chemical raw materials, chemical agents, etc.).

Supplier ESG management

Our supply chain network involves various environmental and social risks, and we carry out comprehensive, fair and transparent procurement procedures to minimise such risks. The Supplier Management Centre and dedicated teams from different brands work closely with suppliers to ensure high performance. We encourage all suppliers, business partners, and associates to uphold standards on environmental, social, and ethical business practices that align with the Group's requirements. All these requirements are demonstrated in our Supplier Code of Conduct and Supplier Management Manual, and we expect our partners to comply with them throughout our collaboration.

REINFORCING RESPONSIBLE VALUE CHAIN

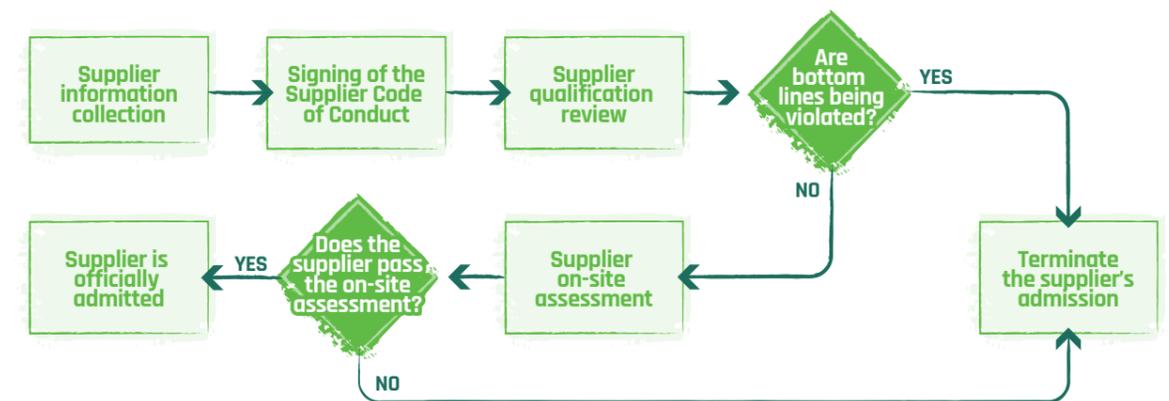
New supplier admission process

We strictly screen all potential suppliers through an initial qualification and compliance review conducted by the Supplier Management Centre (SMC), and suppliers who pass this initial screening will be subject to on-site audits carried out by personnel qualified as internal auditors from our supply chain development, quality control, and operations departments. This on-site inspection is applicable to suppliers including those providing raw materials for footwear and apparel, auxiliary and packaging materials, finished goods production, semi-finished goods production. Relevant requirements have been communicated to suppliers through our Supplier Code of Conduct.

In 2023, we elevated our social responsibility audit requirements at the supplier admission phase to screen out suppliers that fail to meet our social responsibility requirements. During the year, we introduced 32 new formal and temporary suppliers into our network, and declined the admission of two suppliers due to safety performance concerns. The suppliers were requested to properly address and rectify the safety risks identified for further supplier admission processes.

For overseas suppliers, we appoint third-party suppliers to conduct supplier audits covering aspects such as forced labour, health and safety, child labour, wages and benefits, working hours, discrimination, environmental protection and counterterrorism.

New Supplier Admission Review Process



REINFORCING RESPONSIBLE VALUE CHAIN

REINFORCING RESPONSIBLE VALUE CHAIN

Initiation

- ◆ Business units initiate the new supplier admission procedure by completing a form with the details of their procurement demands and basic information of the supplier to be introduced.
- ◆ The SMC will review the request, and the assessment process will commence once the initial review is passed.

Assessment – Document review

- ◆ The SMC collects basic information and relevant certifications from the potential suppliers and provide them with Xtep’s Supplier Code of Conduct through the Supply Chain Management (SCM) platform.
- ◆ Suppliers shall sign the Supplier Code of Conduct and provide other required information through the SCM platform for the SMC to conduct a qualification assessment based on the information submitted by the supplier. Suppliers that receive a rating of 70% or above will enter the next stage of on-site inspection.

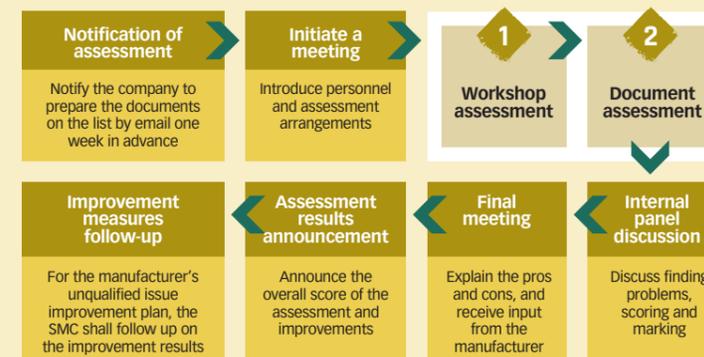
Assessment – On-site inspection

- ◆ SMC staff will perform site visits to verify and evaluate the social responsibility and environmental management performance of potential suppliers, including review of relevant documentations and the implementation of relevant practices on-site.
- ◆ Any bottom-line violations will result in immediate termination of the admission process, they include:
 - Child labour
 - Forced labour
 - Life-threatening working and living conditions

On-site assessment dimensions

Social responsibility system assessment dimensions	Environmental system assessment dimensions (mainly for material suppliers)
1 Child protection	1 Waste gas, wastewater and waste residue management
2 Forced labour	2 Climate change, energy efficiency and emission reduction
3 Human resource management	3 Environmental system process and system
4 Compliance and regular review	
5 Production safety risk management	
6 Fire safety	
7 Chemical control	
8 Living environment	
9 Equality and democratic rights	
10 Wages and social security	
11 Working hours and right to rest	
12 Processes and systems	

On-site assessment workflow



Admission

- ◆ The on-site inspection findings will be documented with a composite score given to the supplier based on their environmental and social performance, along with other business requirements. Suppliers with a composite score of 70 or above are accepted directly, while suppliers scoring 60–70 are conditionally accepted with a three-month correction period. Besides passing the composite score threshold, suppliers must also reach a total score of 60 or above in social responsibility and environmental aspects without any bottom-line violations.
- ◆ The assessment results of suppliers that fail will be archived so that the Group will be alerted if there are future admission attempts.

REINFORCING RESPONSIBLE VALUE CHAIN

Ongoing supplier evaluation

Existing suppliers are also assessed through document review, on-site inspections, and employee interviews. Between October and December 2023, the Xtep core brand conducted annual assessments on all major garment and finished products suppliers, covering more than 90% of our core Tier 1 suppliers. The audit for Tier 2 on material suppliers will begin in 2024.

47 Tier 1 suppliers of the Xtep core brand were audited, including those producing garments, shoes, and embroidered items. 34% of the assessed suppliers exceeded our requirements, while 42% met the criteria and 23% performed below our expectation. The increase in suppliers not meeting our expectation was mainly due to the upgrade in our assessment standards, and among these suppliers three of them were suspended after further assessments. The remaining suppliers that did not meet our expectations were requested to implement rectifications before the end of June 2024.

For new brands, we primarily conduct annual third-party audits on footwear products, focusing on human rights and counterterrorism. We produce an assessment report annually. Any non-compliance identified will be communicated with the suppliers with rectifications expected within a specified timeframe. A second audit will be conducted to ensure the effectiveness of the rectification measures, and suppliers who cannot meet the Group's business needs and standards could be terminated. In 2023, all suppliers of the new brands passed the assessment.

The criteria for rating and applying the results of supplier social responsibility assessments are summarised as follows:

Ratings	Range	Application
S, superior	90 ≥ score	Supplier self-assessment, sampling assessment once every 2 years, eligible to participate in the annual group supplier evaluation, and selected for the strategic core supplier candidate list
A, excellent	85 ≤ score < 90	Sampling assessment once every 2 years, eligible to participate in the group supplier evaluation, and selected for the strategic core supplier candidate list
B, good	70 ≤ score < 85	Sampling assessment once per year, regular follow-up on non-compliant issues for improvement, conduct semi-annual reviews, and eligible to participate in supplier evaluations
C, pass	60 ≤ score < 70	Sampling assessment once per year, regular follow-up on non-compliant issues for improvement, conduct semi-annual reviews, and not eligible to participate in any supplier evaluations
D, fail	Score < 60 coupled with zero tolerance issues	Suppliers are required to make immediate improvements; and if a review is failed within one quarter, they are classified as high-risk suppliers, and reductions in the volume of cooperation orders are considered until suspension/withdrawal of cooperation

REINFORCING RESPONSIBLE VALUE CHAIN

Enhancing supplier and build up ESG capability

To support suppliers in meeting the Group's expectations regarding environmental and social performances, we continuously engage with our suppliers to understand their limitations and equip them with the skills and knowledge necessary for better ESG performance. These engagements also enable identifying and minimising potential environmental and social risks along the supply chain.

Suppliers' communication and training

During the year, we conducted ESG training for representatives from our core brand's footwear and apparel suppliers. A total of 45 supplier representatives attended these sessions, where we emphasised our expectations on social and environmental practices and promoted suppliers' awareness towards supply chain sustainability.

Additionally, we engaged third-party experts to organise regular training on ESG matters for our overseas suppliers. Furthermore, we provided unified training on anti-corruption policies for new employees of our new brands. The outcomes of all these training sessions were deemed satisfactory.

PRODUCT AND MATERIAL QUALITY ASSURANCE

Quality assurance is crucial to our production processes. Our products are subject to stringent quality control tests, which help ensure that only items that meet the Group's quality requirements are sold to our customers. Our quality control teams are responsible for the quality control processes, which include sample testing and inspection to enhance supplier quality control.

Product quality control process and procedures

We have a ISO9001-certified quality management system to ensure the quality of our own productions through standardised production process. In the R&D phase, our standards team conducts thorough testing and verification of products and materials to develop standards suitable for mass production. This year, we also implemented new management specifications for clothing carton stacking and down storage operations. In 2023, the Standards Team had created and revised 22 pieces of clothing quality standards (including 14 enterprise standard filings and 8 internal control standards) and participated in drafting 6 national clothing standards and revising 39 national standards, all aimed at improving the quality management system.

In September 2023, Xtep organised a discussion session to improve the physicochemical testing of mesh materials used in footwear, with participation from mesh suppliers, technicians, subcontractors, and representatives from finished product factories. The discussion focused on the specific requirements for the use of new materials. Xtep emphasised the need for a comprehensive assessment and mitigation of potential risks during the early design phase of development, as well as the necessity for refinement in the selection of raw materials and process operations, with strict adherence to established protocols.

In this year, Xtep has received product quality recognitions from various organisations:

- ◆ The Director of Xtep's Quality Management Centre was awarded the "Advanced Individual in Standardisation Work," enhancing Xtep's discourse power in textile and apparel industry standards and improving the brand's reputation.
- ◆ Xtep's Apparel Testing Centre participated in the "Fibre Inspection Cup" testing skills competition organised by the Fujian Fibre Inspection Bureau. Five testing engineers participated and won the first prize in the group knowledge competition.

REINFORCING RESPONSIBLE VALUE CHAIN

At the production stage, the quality management teams monitor the quality and safety of raw materials and finished products. They also perform regular quality control activities on the production process and conduct stringent product quality inspections to ensure the finished products from our suppliers pass physical and chemical standards before being delivered to customers. In addition, Xtep conducts monthly sample testing for its Tier 1 and Tier 2 suppliers. Raw materials, adhesives, and finished products are sent to nationally certified third-party laboratories every quarter, ensuring the final products align with national standards and product quality and safety regulations.

To improve product quality, the Group established a special quality control circle for items like down jackets and shoes, allowing steady quality enhancement for specific product categories. The team also conducts competitive product analysis to optimise product standards and testing methodology while promoting product quality and comfort.



Case study

In 2023, we organised an ISO9001 Quality System Manager Training Camp, where all 51 participants passed the assessment and were awarded the “Quality Management Systems — Internal QMS Auditor Certificate”.



The group also enforces stringent quality control procedures for outsourced productions, and monthly quality review meetings are conducted to ensure proper quality management. We consistently enhance our employees’ capabilities in product quality management, and support our staff to participate in training such as the anti-mould measures training by Micropak and testing procedures training by SATRA. In 2023, to improve product quality and manufacturing processes, K-SWISS and Palladium introduced automated screen-printing machines, laser machines, high-quality computerised automatic threading machines, computerised sewing machines, digital printing, and other equipment and technologies, while also implementing a fully enclosed eco-friendly assembly line.

To stay informed on the feedback of our customers, our sales department discuss weekly with our supply chain management departments and our quality management team will visit physical stores to understand market trends and customer needs.

REINFORCING RESPONSIBLE VALUE CHAIN

Enhancing product quality control with suppliers and customers

We proactively help our suppliers build quality control and management capacity to promote the Group’s overall product quality. We have provided training on testing knowledge and professional skills enhancement for external cooperative suppliers and laboratory personnel, followed by assessments and certifications. This helped improve the quality management systems of our suppliers and by the end of 2023, 33 supplier laboratories had been certified, covering garment, printing, materials, and accessories suppliers.

We delivered FQC/IQC certification training to Tier 1 and Tier 2 suppliers to foster self-regulation in supply chain quality, improve product standards, and support beneficial supply chain growth. Additionally, we organised 17 training sessions on apparel quality standards, engaging around 280 internal and external supplier representatives

Customer relationship management and satisfaction

At Xtep, we adopt a consumer-first approach, ensuring open communication with our customers to meet their needs. We systematically handle complaints by setting resolution timelines, monitoring progress, and working towards mutually agreeable solutions to enhance customer satisfaction.

We have established protocols for product recalls and quality issues. In the event of a significant recall, our Quality Management Centre conducts thorough investigations, reports findings to senior management, and corrective actions are taken to prevent future occurrences. In 2023, we had no significant recalls due to health or safety concerns. We assure customers of repair, replacement, or return of local products sales, and the Xtep core brand has implemented a robust product return program, with our comprehensive Return and Exchange Policy allows for unconditional acceptance of worn products.

Our dedicated “400 Hotline” is the first point of contact for customer complaints. Complaints are recorded, verified, and typically responded to within 2 business days, with specific resources reserved to address individual cases that are complex in nature. The number of complaints received through the “400 Hotline” in 2023 was 4,755⁶. We also conduct monthly callbacks to gauge customer satisfaction and invite feedback from all “400 Hotline” users. In 2023, we achieved a 92.88% satisfaction rate, which is higher than the original target of 90%.

We enhanced the “400 Hotline” this year with an improved voice navigation system for more efficient paring between callers and live operators. As a result, our customer service reception capacity has increased by over 300%, and our hotline connection rate has improved by 35%.



⁶ There has been a notable increase in the number of customer complaints, primarily driven by the rise in product sales during the year. However, the ratio of complaints to total inquiries has decreased compared to 2022.

PRESERVING THE NATURAL ENVIRONMENT

As a company in the sportswear industry, we are continually working to advance sustainability across our operations and product portfolio. By instituting programmes in our facilities to enhance energy efficiency, reduce waste, and lower emissions, we aimed to design apparel and sportswear with lower environmental impacts over their lifecycles. Through exploring innovative product designs and sustainable operation initiatives, we strive to operate responsibly in a way that aligns with our customers' growing interest in brands that protect the environment.

Our Environmental Management System, which is certified under ISO 14001, provides a structured framework for monitoring the environmental performance of our daily operations and ensuring full compliance with increasingly stringent environmental regulations. To guide our sustainability efforts, we have defined focus areas and targets for preserving the environment. For details, please refer to the "10-Year Sustainability Plan" in the "Our Sustainability Framework and Initiatives" section.

TACKLING CLIMATE CHANGE

Climate-related risks and opportunities

As a sportswear manufacturer, the Group recognises the importance of confronting risks posed by climate change. We continue to evaluate and implement various climate risk management initiatives to stay vigilant in addressing climate-related impacts and risks across our business.

Physical risks such as rising global temperatures, altering worldwide climate patterns, and more frequent severe weather events have the potential to impact our operations by disrupting supply chains and reducing infrastructure resilience. Transition risks from policy changes and market preference shifts could also considerably affect operations. For instance, the global transition to low-carbon economies may increase our production costs by investing in sustainable energy. However, these risks also bring opportunities by developing new technologies and products in response to climate change.

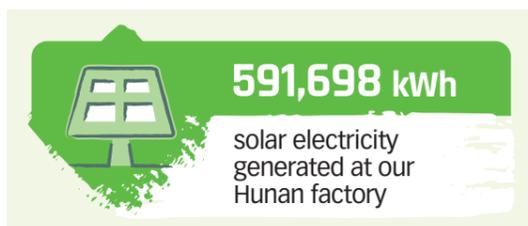
Energy efficiency and carbon reduction

The Group is committed to reducing our carbon footprint by strengthening energy management and supporting the transition to a low-carbon future. We have established four targets for responsible energy use and work on various initiatives as part of our ongoing efforts to progress these targets.

We made efforts to adopt cleaner energy at our production facilities. At our Hunan factory, we have installed a solar photovoltaic system with the aim of decreasing reliance on purchased electricity from the grid while positioning us to evaluate expanding onsite renewable generation to other sites. At our Shishi factory, we have begun planning for the implementation of a solar utilisation plan to evaluate approaches to leveraging solar power generation at the site.

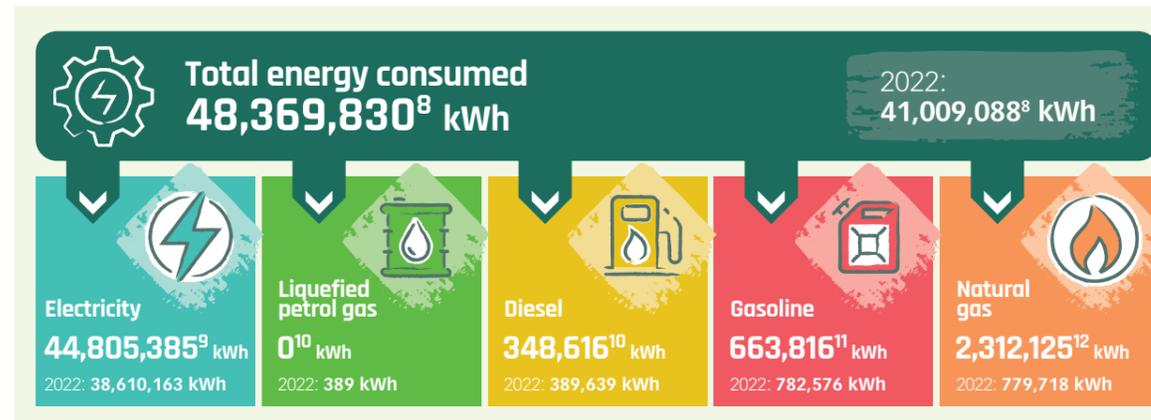
Continuous upgrades of our existing facilities help enhance the energy efficiency of our operations. We replaced lighting fixtures throughout our factories with LED alternatives and integrated motion-sensor lighting controls in onsite dormitories. The dormitory water heating system was upgraded to a smart energy hot water device that utilises heat pump technology powered by electricity for greater energy efficiency. All boilers across our production sites are powered by natural gas, enhancing energy efficiency and reducing air pollution and greenhouse gas emissions. Regular maintenance is conducted on the boilers to minimise any potential wastage of resources from ageing equipment or failures.

Fostering a culture of energy conservation across our operations is an important part of strengthening energy management. At our branded stores, factories, and headquarters, guidance on energy-saving practices and internal communication materials are prominently displayed, providing information about how daily practices can support energy conservation. In addition, we closely monitor electricity consumption at all of our operations to promptly identify any abnormalities in energy usage and continually enhance efficiency.

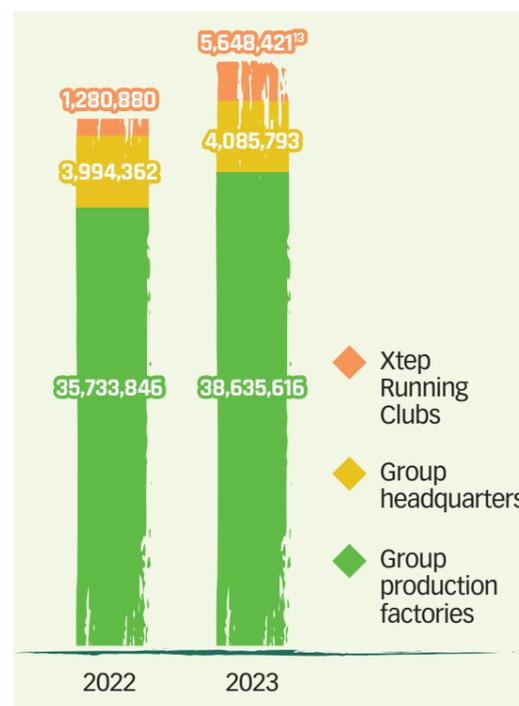


PRESERVING THE NATURAL ENVIRONMENT

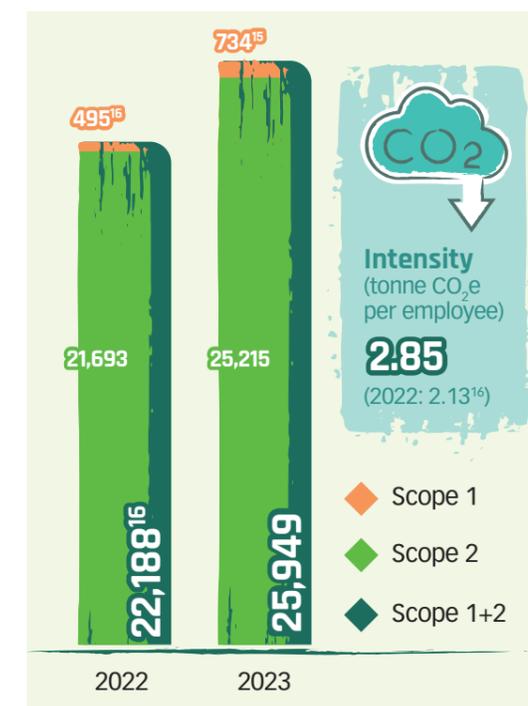
Energy consumption in 2023⁷ (kWh)



Total energy consumption by location (kWh)



Carbon emissions in 2023¹⁴ (tonne CO₂e)



⁷ Energy conversion factors are referenced from the United Kingdom Department for Energy Security and Net Zero conversion factors 2023.
⁸ This year, we have expanded our reporting scope of energy consumption to add in the Group headquarters, Xtep Running Clubs (excluding franchised stores), and 2 logistic centres in Nan'an and in Cizao. To ensure consistency and comparability, the 2022 total energy consumption and breakdown by fuel types have also been revised in line with update on the energy consumption data in 2023.
⁹ The total electricity consumption decreased compared to 2022. This was due to the increase in production volume and extended working hours at our Fujian Quanzhou Koling factory and Fujian Shishi factory, as well as the installation of new air-conditioning units in the office area at our Fujian Shishi factory.
¹⁰ The total amount of liquefied petrol gas consumption dropped to 0 in 2023, as our Fujian Jinjiang main factory which uses liquefied petrol gas for cooking had ceased operation in December 2022.
¹¹ The total amount of diesel and gasoline consumption decreased in 2023 due to the reduction in the number of vehicles in our Fujian Quanzhou Koling factory and Fujian Quanzhou main factory.
¹² The total consumption of natural gas increased significantly compared to 2022. This change was primarily attributed to the higher number of employees dining at the cafeteria in our Fujian Shishi factory and the expansion of cafeteria services at our Fujian Quanzhou main factory, both of which use natural gas for cooking.
¹³ The expansion of floor areas in several stores contributed to increased energy consumption in 2023. Additionally, a significant number of stores, which were closed in 2022 due to COVID-19, resumed full-year operations in 2023, marking the first year without the pandemic's operational impact.
¹⁴ Emission factors are referenced from the Guide to Calculating and Reporting Greenhouse Gas Emission in Industry and Other Sectors (Trial) issued by the National Development and Reform Commission of the People's Republic of China and the average emission factor of the national grid in 2022 announced by the Ministry of Ecology and Environment of the PRC.
¹⁵ Scope 1 emission has increased significantly in 2023 due to increased consumption of natural gas in our Fujian Quanzhou main factory.
¹⁶ Revised according to the restated 2022 scope 1 emissions.

PRESERVING THE NATURAL ENVIRONMENT

AIR EMISSION

In our production process, the combustion of fuels for equipment such as boilers inevitably results in certain air emissions. We have switched to powering our boilers with cleaner natural gas rather than diesel, resulting in lower air emissions and improving thermal efficiency. In addition, exhaust gases from our production processes are treated with activated carbon to remove pollutants before being released into the atmosphere, which are replaced on an annual basis by qualified vendors.

Palladium and K-SWISS upgraded the exhaust gas collection hood of the waste gas treatment system, ensuring optimal and consistent performance of the treatment facilities. Moreover, we are considering developing an energy data reporting system to enable standardised emissions data collection and calculation processes, which can improve data accuracy and create a more robust air emission management system.

WATER MANAGEMENT

Water usage

Most of the Group's water consumption occurs during the production process and its dormitories. To improve water efficiency in these areas, we have implemented various process improvements and water recycling and reuse measures to minimise water usage. Regular inspection and maintenance of our plumbing infrastructure ensure reliable operation of the system and avoid wastage of water resources due to equipment failure. We have also adjusted the water pressure of our living quarters and installed timers to control the flushing frequency of the washrooms in our factories and dormitories, which reduces the overall water consumption.

Apart from the process and infrastructure improvements, we are also working on cultivating a culture of water conservation among employees. We have launched education and awareness campaigns to raise awareness among our employees on the significance of water sources and encourage practices that can reduce daily water consumption.



Wastewater discharge

Our wastewater discharge is not subject to specific requirements from the government as it is domestic effluent with insignificant chemicals. We discharge such sewage into the municipal wastewater network in compliance with local regulations in all our operations.

¹⁷ The reduction in overall water consumption was mainly due to the water efficiency improvements, including the flushing system upgrades.

PRESERVING THE NATURAL ENVIRONMENT

USE OF CHEMICALS

As a responsible sportswear producer, the Group is committed to ensuring our product safety and minimising the use of hazardous chemicals. We fully comply with our internal standards and applicable national regulations regarding chemical usage in all our operations.

We have been researching safer alternatives and reducing the use of chemicals that are of concern in our products. Merrell cooperated with Bluesign dyeing auxiliaries' manufacturers for 80% of its garment production and aims to exceed the high percentage by 2025. Saucony also increased its adoption of fluorine-free water-repellent garments to 10%, with its target of 40% by 2050.

Employee training on proper chemical handling is also a crucial aspect of our operation. Palladium and K-SWISS provide rigorous training sessions to ensure employees are aware of safety chemical management. In addition, we are targeting to increase the use of water-based adhesives, as a safer and less-polluting option, for over 50% of shoe production under our core Xtep brand while maintaining high quality. The proportion of returns and exchanges related to ineffective glueing decreased from 0.079% in 2022 to 0.057% in 2023, demonstrating our efforts to optimise adhesive use and reduce quality issues.

PACKAGING MATERIAL AND WASTE MANAGEMENT

We have been taking steps to introduce more sustainable packaging options across our brands to reduce the associated environmental impacts. For our core Xtep brand, we replaced tags and quality labels on apparel and accessories with more eco-friendly materials since 2020. We also provide shoe boxes with carrying handles to reduce the use of plastic retail bags. In 2022, 95% of wrapping paper from K-SWISS and Palladium was FSC-certified. From 2023, all inner boxes for product orders of Saucony and Merrell will adopt environmentally friendly material.



The Group is cautious about managing our waste and proper disposal. Hazardous waste from our production, such as activated carbon and contaminated containers, is collected by qualified third parties for disposal in accordance with local laws and regulations. A considerable amount of general waste is generated at our on-site employee accommodations. We uphold the principles of reducing, reusing, and recycling across the living and manufacturing facilities. Recyclable waste is categorised and recycled centrally, and external contractors are appointed to collect and properly dispose of non-recyclable general waste.

¹⁸ In 2023, the gradual replacement of plastic strips with plastic tapes led to a decrease in strip usage and an increase in tape usage compared to 2022.

ADVOCATING BUSINESS ETHICS AND VALUING INTEGRITY

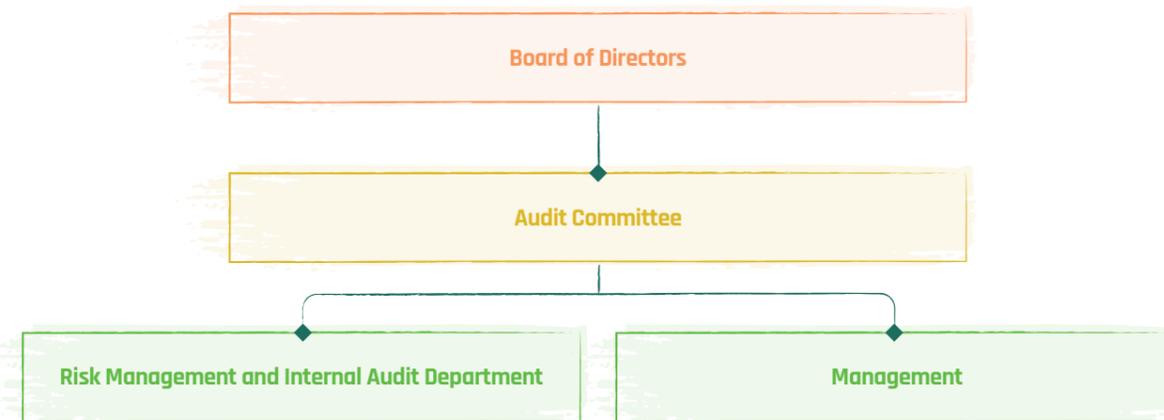
RISK MANAGEMENT AND INTERNAL CONTROL

Risk management is an integral part of how we operate and make decisions. The Board is ultimately responsible for overseeing the Group's risk management approach and evaluating its effectiveness on a regular basis.

We have established a risk management framework with defined roles and responsibilities for each party. Policies and processes are in place to facilitate smooth and effective operations, ensure reliable financial reporting, comply with applicable legal and regulatory requirements, identify and manage potential risks and safeguard the Group's assets. Moreover, the Group regularly review the risk management system to ensure its ability to respond to a dynamic business landscape.

Xtep risk governance organisation structure

Structure of Xtep's risk governance organisation



ADVOCATING BUSINESS ETHICS AND VALUING INTEGRITY

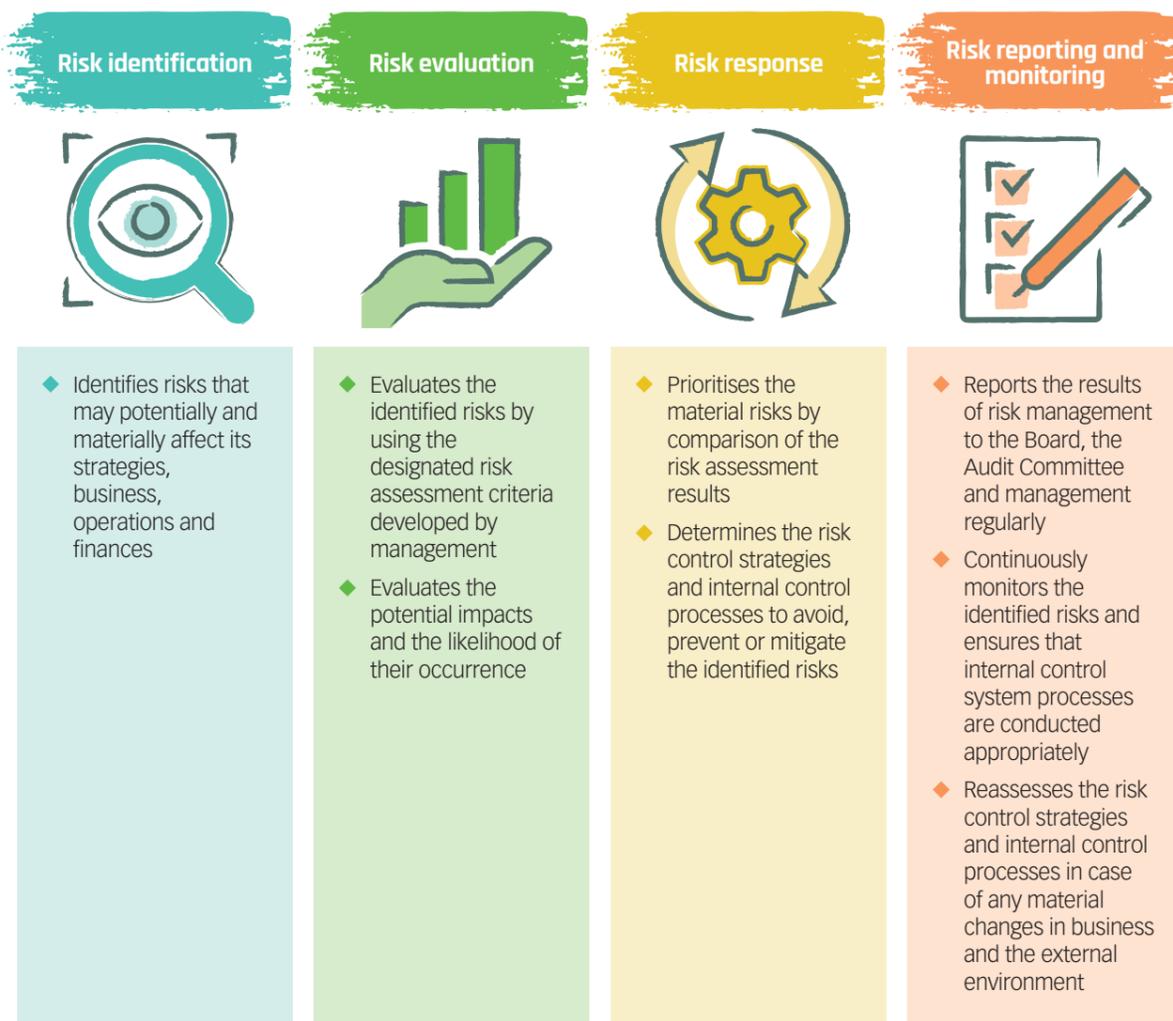
The primary responsibilities of each party in the Group's risk governance structure are as follows:

Board of Directors	Audit Committee	Risk Management and Internal Audit Department	Management
			
<p>The Board determines the business strategic objectives of the Group and evaluates the nature and extent of the risks that the Group is willing to take to achieve the strategic objectives of the Group. It also ensures that the Group appropriately and effectively establishes and maintains risk management system and oversees the overall design, implementation and supervision of the risk management system and internal control system.</p>	<p>The Audit Committee is responsible for supervising and guiding the Risk Management and Internal Audit Department and the management to establish and operate the internal control systems, regularly supervising the Group's risk management and internal control systems and making recommendations to the Board. The risk management and internal control systems are reviewed at least annually for their effectiveness, and the review process includes all significant aspects of control, including financial, operational, and compliance controls.</p>	<p>The Risk Management and Internal Audit Department assesses the effectiveness and adequacy of the Group's risk management and internal control systems and reports the findings to the Audit Committee for improvement of the identified control weaknesses or material system deficiencies.</p>	<p>The Management is delegated and authorised to:</p> <ul style="list-style-type: none"> (i) design, implement and maintain risk management and internal control systems appropriately and effectively; (ii) identify, evaluate, manage and control the risks that may have potential and material impacts on the processes of the operations; (iii) monitor risks and take appropriate methods to mitigate risks; (iv) respond promptly to and follow up the findings of the risk management and internal control issues raised by the risk management and internal audit department; and (v) provide confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems.

ADVOCATING BUSINESS ETHICS AND VALUING INTEGRITY

Risk identification and management

We have implemented a risk governance organisation structure with defined roles and responsibilities to address and manage risks effectively. Our processes for identifying, assessing and managing material risks are summarised as follows:



BUSINESS ETHICS

Maintaining the highest levels of integrity and transparency is crucial for building trust with our stakeholders and upholding our reputation. We have implemented policies and measures and strive to conduct business with the highest ethical standards.

We have established a "Management Compliance Investigation and Accountability System" to standardise the handling mechanism for addressing significant issues or irregularities that may arise within our management functions and operations relating to compliance with our code of conduct. During the year, the Group has also provided training on business ethics for all employees to strengthen anti-fraud concepts and promote a culture of integrity. Real-life cases from within the Group in recent years were presented to demonstrate how ethical dilemmas can arise and how they were appropriately addressed, contextualising the topics which may arise in their day-to-day operations.

ADVOCATING BUSINESS ETHICS AND VALUING INTEGRITY

Internal audit

The Group's risk management and internal audit departments is responsible for performing the internal audit function, including evaluating the effectiveness of our enterprise-wide risk management and internal control systems. Regular progress updates are provided to the Audit Committee. The Board and the Audit Committee oversee resourcing to ensure the risk management and internal audit departments have adequate budgets and staffing to perform their internal audit functions. Relevant training is provided to experienced and qualified staff to develop the skills and capabilities needed to maintain internal audit quality.

Compliance management

The Group has implemented preventive, monitoring and controlling measures to ensure compliance with relevant business operation laws and regulations. During the reporting period, the Group complied with all code provisions and, where appropriate, adopted the best-recommended practices as set out in the Corporate Governance Code, except code provision A.2.1 (chairman and chief executive officer).

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not separate the roles of the chairman and the chief executive officer at present. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the Group's overall corporate strategies, planning and business management. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the Board and senior management, which is comprised of experienced and high-calibre individuals. The Board currently consists of three executive directors and three independent non-executive directors and has a vital independence element in its composition.

Anti-corruption

The Group upholds a zero-tolerance approach towards corruption, bribery, extortion, fraud and money laundering. An anti-fraud Management system has been established to identify, report, investigate and address fraud risks across operations. Informed by national policies on internal controls, such as the "Basic Norms for Internal Control" and "Guidelines for Application of Enterprise Internal Controls", we established our "Anti-Corruption Policy", "Anti-fraud Management System", and "Code of Integrity", which set clear expectations for all employees. Risk assessments are conducted to diagnose any vulnerabilities within the critical business operations. For details, please refer to the *Anti-fraud Management System* on the Group's website.

As we rely on our employees to promote and safeguard our values, we provide anti-corruption training for employees to ensure they fully understand our expectations and principles as defined in our policies. The training is conducted regularly and shared with employees online for convenience.



We recognise the importance of instilling these values throughout our supply chain as well. All suppliers are required to sign the "Incorruptible Cooperation Agreement", agreeing to abide by our standards regarding issues like bribery and fraud. For more details, please refer to our approach in supply chain management in the "Supplier Assessment and Management".

In 2023, we were not aware of any non-compliance on corruption, bribery, extortion, fraud and money laundering.

ADVOCATING BUSINESS ETHICS AND VALUING INTEGRITY

Conflict of interest

Transparent communication of expectations, along with robust policies, enables us to prevent, identify and effectively mitigate any potential, perceived or real conflicts of interest in our operations and across our value chain.

Our "Anti-corruption Policy" outlined the professional and ethical standards our employees must abide by in all business dealings. All staff members are required to regularly report any potential conflicts of interest. In addition, our "Supplier Code of Conduct" outlines our expectations and requirements of all suppliers, ensuring their operations align with our ethical standards.

Whistleblowing policy

To avoid the potential occurrence of misconduct within the Group and our supply chain and ensure that we operate in accordance with the highest ethical standards, we have developed a whistleblowing system which enables employees, suppliers (including their employees), and other relevant external stakeholders to anonymously report any actual or suspected inappropriate actions, fraudulent behaviour or policy violations through confidential channels, including a dedicated email and WeChat account, and the monitoring department, for investigations. The identity of the whistle blowers and related records are kept strictly confidential by the risk management and internal audit department, and the Audit Committee. Whistle blowers are safeguarded from any form of retaliation, such as undue dismissal or disciplinary action without reasonable cause. All reports are thoroughly reviewed and investigated as appropriate.

In 2023, no whistleblowing report was received from the whistleblowing channels.

Responsible marketing

We strive to build meaningful connections with customers through transparent and ethical promotions. From product advertisement to community initiatives, our campaigns are guided by a commitment to accurate portrayals, sustainability considerations and stakeholder trust.

We adhere strictly to relevant advertising regulations, such as the "Advertising Law of the People's Republic of China", the "Anti-Unfair Competition Law of the People's Republic of China", the "E-commerce Law of the People's Republic of China", which protect the rights and interests of consumers and promote the sound development of advertising. We ensure all promotional activities and representations across all channels are balanced and accurate without overstatement of their functionality and ESG attributes.

In 2023, we were not aware of any non-compliance on advertising and labelling relating to products and services provided.

Data security and customer privacy protection

As a company handling significant volumes of customer information, we recognise our responsibilities in safeguarding customers' data and information. In accordance with relevant laws and regulations, including the "Cyber Security Law of the People's Republic of China" and the "Personal Data (Privacy) Ordinance of Hong Kong", we have established policies such as the "Information Security Confidentiality System," "Information Security Training Management Standard", "Group Information Security Management Policy" and "Anti-Virus Management Standard" to ethically collecting, storing, using and protecting our customers' data.

ADVOCATING BUSINESS ETHICS AND VALUING INTEGRITY

Our "Policy on Data Governance" lays the ground rules for managing customer data and protecting their privacy with the following fundamental principles:



Continuous awareness training is one of our approaches to protecting our customer privacy. We regularly broadcast information security awareness communications in common areas to reinforce the importance of cybersecurity across our organisation. In addition, training sessions are arranged every six months to ensure our employees have a thorough understanding of the importance of information and network security.

To prevent IT system interruptions and network attacks, our 24/7 network and information security monitoring system with automated and manual alert systems allow prompt response to any security issues. Meanwhile, we have regular backups of all business data to prevent data loss and conduct data recovery tests twice a year to evaluate our restoration procedures. Annual risk assessments, including penetration tests and phishing simulations, allow proactive identification of vulnerabilities, enhancing our security and incident response capabilities in today's evolving threat landscape.

We will continue to enhance our data security measures to ensure compliance with the latest regulatory requirements and address the expectations of our stakeholders.

Intellectual property protection

We are committed to respecting all intellectual property rights and strictly enforcing compliance with laws, including the "Patent Law of the People's Republic of China" and the "Trademark Law of the People's Republic of China". Our dedicated team closely monitors any potential infringements and implements preventative measures. We also have high expectations of our suppliers and have included confidentiality clauses and other specifications in supplier contracts to protect the Group's intellectual property and patents.

APPENDIX

SEHK ESG GUIDE CONTENT INDEX

Subject Areas, Aspects, General Disclosures and KPIs	Section	Remarks
Governance Structure	A statement from the board containing the following elements: (i) a disclosure of the board's oversight of ESG issues; (ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.	Our sustainability governance structure Risk management and internal control
Reporting Principles — Materiality	(i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.	Application of reporting principles
Reporting Principles — Quantitative	Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable).	Application of reporting principles
Reporting Principles — Consistency	The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.	Application of reporting principles
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report.	Application of reporting principles

APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs	Section	Remarks	
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Promoting green product innovation Tackling climate change Air emission Packaging material and waste management	
KPI A1.1	The types of emissions and respective emissions data	Tackling climate change Air emission Given the nature of the Group's business, we do not have significant air emissions from our production processes	
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity	Tackling climate change	
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	—	Currently hazardous and non-hazardous wastes are not considered material to the Group and we have yet to collect and consolidate relevant information. We will continue to review and disclose further information as appropriate in the future
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	—	

APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs	Section	Remarks
KPI A1.5	Description of emission target(s) set and steps taken to achieve them	Tackling climate change Our sustainability framework and initiatives
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	Packaging material and waste management Our sustainability framework and initiatives
Aspect A2: Use of resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Tackling climate change Water management Packaging material and waste management
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Tackling climate change
KPI A2.2	Water consumption in total and intensity	Water management
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	Tackling climate change Our sustainability framework and initiatives
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	Water management Our sustainability framework and initiatives
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Packaging material and waste management

APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs	Section	Remarks
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	Promoting green product innovation Preserving the Natural Environment
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them	Promoting green product innovation Preserving the Natural Environment Our sustainability framework and initiatives
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer	Tackling climate change Risk management and internal control
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	Tackling climate change Risk management and internal control Our sustainability framework and initiatives

APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs		Section	Remarks
B. Social			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Supporting the growth and well-being of our people	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Supporting the growth and well-being of our people	
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Supporting the growth and well-being of our people	
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Supporting the growth and well-being of our people	
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year	Supporting the growth and well-being of our people	
KPI B2.2	Lost days due to work injury	Supporting the growth and well-being of our people	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Supporting the growth and well-being of our people	

APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs		Section	Remarks
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Supporting the growth and well-being of our people	
KPI B3.1	The percentage of employees trained by gender and employee category	Supporting the growth and well-being of our people — Training and development	
KPI B3.2	The average training hours completed per employee by gender and employee category	Supporting the growth and well-being of our people — Training and development	
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Supporting the growth and well-being of our people	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Supporting the growth and well-being of our people	
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Supporting the growth and well-being of our people	

APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs		Section	Remarks
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	Supplier assessment and management	
KPI B5.1	Number of suppliers by geographical region	Supplier assessment and management	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier assessment and management	
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supplier assessment and management	
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supplier assessment and management	
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Business ethics Product and material quality assurance	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Product and material quality assurance	
KPI B6.2	Number of products and service-related complaints received and how they are dealt with	Product and material quality assurance	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Business ethics	
KPI B6.4	Description of quality assurance process and recall procedures	Product and material quality assurance	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Business ethics	

APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs		Section	Remarks
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Business ethics	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Business ethics	
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	Business ethics	
KPI B7.3	Description of anti-corruption training provided to directors and staff	Business ethics	
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Contributing a positive impact to our society Donations and charity events	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Contributing a positive impact to our society Donations and charity events	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Contributing a positive impact to our society Donations and charity events	

APPENDIX

GLOSSARY

Board	The Board of Directors of Xtep International Holdings Limited
Committee	The Board-level Sustainability Committee
ESG	Environmental, Social and Governance
ESG Guide	Appendix C2 of Hong Kong Stock Exchange Listing Rules and Guidance: Environmental, Social, and Governance Reporting Guide
Group, Company or Xtep	Xtep International Holdings Limited and its subsidiaries
Hong Kong	The Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange or Stock Exchange or HKEX	The Stock Exchange of Hong Kong Limited
ISO 14001	International Environmental Management System Standard issued by International Organisation for Standardisation
ISO 45001	International Occupational Health and Safety Standard issued by The British Standards Institution
ISO 9001	International Quality Management System Standard issued by International Organisation for Standardisation
KPIs	Key performance indicators
Materiality Assessment	Procedures to identify the material issues that are most relevant to the company's daily operations and to our stakeholders
PRC or Mainland China	The People's Republic of China excluding, for the purpose of this ESG report, Hong Kong, Macau and Taiwan
Report	2023 Environmental, Social and Governance Report of the Group
RMB	Renminbi, the lawful currency of the PRC
SDGs	Sustainability Development Goals
Year	The year ended 31 December 2023

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