



**XTEP INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with Limited Liability)*

SEHK Stock Code: 1368



**2018**

Environmental, Social and Governance Report

#### Board of Directors

##### Executive Directors

Ding Shui Po (*Chairman*)  
Ding Mei Qing  
Ding Ming Zhong

##### Independent Non-executive Directors

Tan Wee Seng  
Gao Xian Feng  
Bao Ming Xiao

#### Board Committees

##### Audit Committee

Tan Wee Seng (*Chairman*)  
Gao Xian Feng  
Bao Ming Xiao

##### Remuneration Committee

Gao Xian Feng (*Chairman*)  
Ding Mei Qing  
Bao Ming Xiao

##### Nomination Committee

Ding Shui Po (*Chairman*)  
Tan Wee Seng  
Gao Xian Feng

#### Company Secretary

Yeung Lo Bun, FCPA

#### Authorized Representatives

Ding Shui Po  
Yeung Lo Bun

#### Registered Office

Cricket Square, Hutchins Drive  
P.O. Box 2681, Grand Cayman KY1-1111  
Cayman Islands

#### Principal Place of Business in Hong Kong

Unit A, 27/F, Tower A  
Billion Centre, 1 Wang Kwong Road  
Kowloon Bay, Kowloon, Hong Kong

#### Head Office in the PRC

Xiamen Xtep Tower, No. 89 Jiayi Road, Guanyinshan  
Siming District, Xiamen, Fujian Province, PRC  
Postal Code 361008

#### Legal Adviser as to Hong Kong Laws

Loeb & Loeb LLP

#### Auditor

Ernst & Young

#### Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited  
Butterfield House, 68 Fort Street, P.O. Box 705  
Grand Cayman KY1-1107, Cayman Islands

#### Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716,  
17/F, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

#### Principal Bankers

Bank of China  
Bank of East Asia  
China Construction Bank  
China Minsheng Bank  
Hang Seng Bank  
HSBC  
Industrial Bank

#### Public Relations Consultant

Strategic Financial Relations Limited

#### Company Website

[www.xtep.com.hk](http://www.xtep.com.hk)



### About the Group

The Group established its own sportswear brand Xtep in 2002. Xtep is now a leading professional sports brand with stylish and functional sportswear products. The Group manages an extensive distribution network with exclusive distributors that operate over 6,200 stores nationwide covering 31 provinces, autonomous regions and municipalities across China as well as some points of sales overseas. The Group has principally engaged in design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Company's Shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

## ABOUT THIS REPORT

### Overview

This is the Environmental, Social and Governance ("ESG") Report of Xtep International Holdings Limited for period from 1 January 2018 to 31 December 2018, the same as the annual report of the Group.

### Scope of this Report

It covers the environmental and social policies of the Group's major businesses of sports footwear, apparel and accessories. The environmental KPI data disclosed covers our major production sites as below:

- Fujian Quanzhou main Factory
- Hunan Factory
- Fujian Jinjiang main Factory
- Fujian Quanzhou Koling Factory
- Anhui Factory

### Endorsement and Approval

This ESG report has been reviewed and approved by the Board of Directors.



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**DING SHUI PO**  
Chairman



**XTEP**



**MISSION**

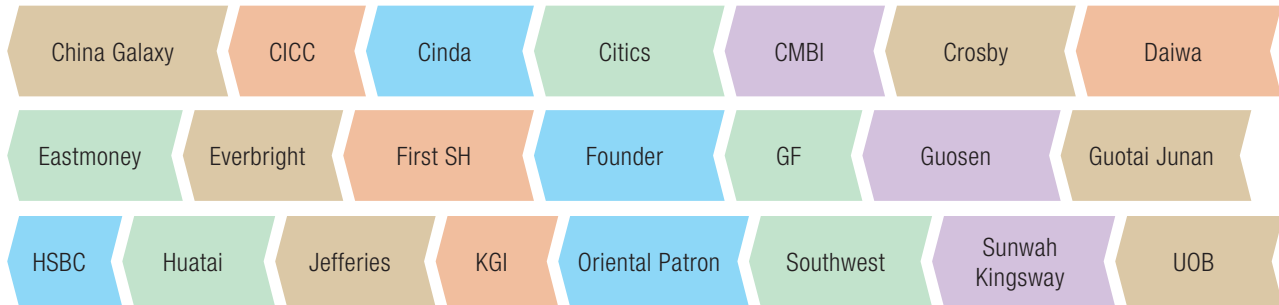
To Be the Chinese Runners' Favorite Brand







### Investment Banks and Securities Firms Coverage



Number of investment banks and securities firms coverage in 2018: **22**

### Investor Relations' Activities as at 31 December 2018

Results presentations to investors (2017 annual results and 2018 interim results)	2	Investment Conferences Organized by Major Investment Banks	11 (63 meetings in aggregate)
Press conferences	2	Major Investor Conferences Attended	J. P. Morgan, Morgan Stanley, Credit Suisse, CITIC, CLSA, Bank of America Merrill Lynch, Daiwa, HSBC, CICC, Guosen
Annual general meeting	1 (Year 2017)	Media Interviews	3
Non-deal Roadshows	10 (46 meetings in aggregate)	Reverse Roadshows	3
Countries/Regions where roadshows and investor conferences were held	Hong Kong, Taiwan, New York, San Francisco, Chicago, Frankfurt, Beijing, Shanghai, Hangzhou, Shenzhen, Singapore		









AWARDS AND ACCREDITATIONS



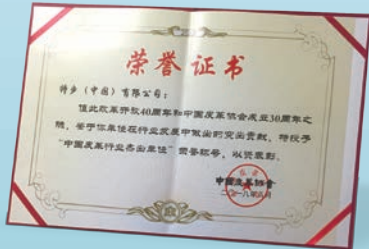
AAA Grade Credit Enterprise Certificate of Enterprise Credit  
Rating Validity period: 2018.04.25-2021.04.24



2018 Top 100 Enterprises Fujian



Generous Support of Charity



Outstanding Unit Honorary Title in PRC Leather Industry



Plaque of Agreement Compliance and Trustworthy Enterprise  
(Bureau) in Quanzhou City for the Year 2016-2017



The year 2018 marked the beginning of a new era for Xtep. Our three-year strategic transformation across brand positioning, product innovation, retail network and operations management has begun to bear fruit. Despite the rising macro uncertainties and the slowing economy in China, the sportswear market continued to gain momentum and has outperformed the retail industry. The Chinese government has been actively promoting sporting events and encouraging an active lifestyle in the country. Alongside the increasing health awareness and enthusiasm in fitness activities among the Chinese people, we are fully confident in the prospects of the sportswear market in 2019 and beyond.

### Performance Review

In 2018, the Group's revenue increased by 24.8% to RMB6,383.2 million (2017: RMB5,113.4 million). Gross profit margin increased to 44.3% (2017: 43.9%). Profit attributable to ordinary equity holders of the Company grew 60.9% to RMB656.5 million (2017: RMB408.1 million). Basic earnings per share amounted to RMB30.2 cents (2017: RMB18.8 cents). The Board has proposed a final dividend of HK9.5 cents per Share. Together with an interim dividend of HK10.5 cents per Share, the dividend payout ratio for the full year was 60.0% (2017: 103.8%).

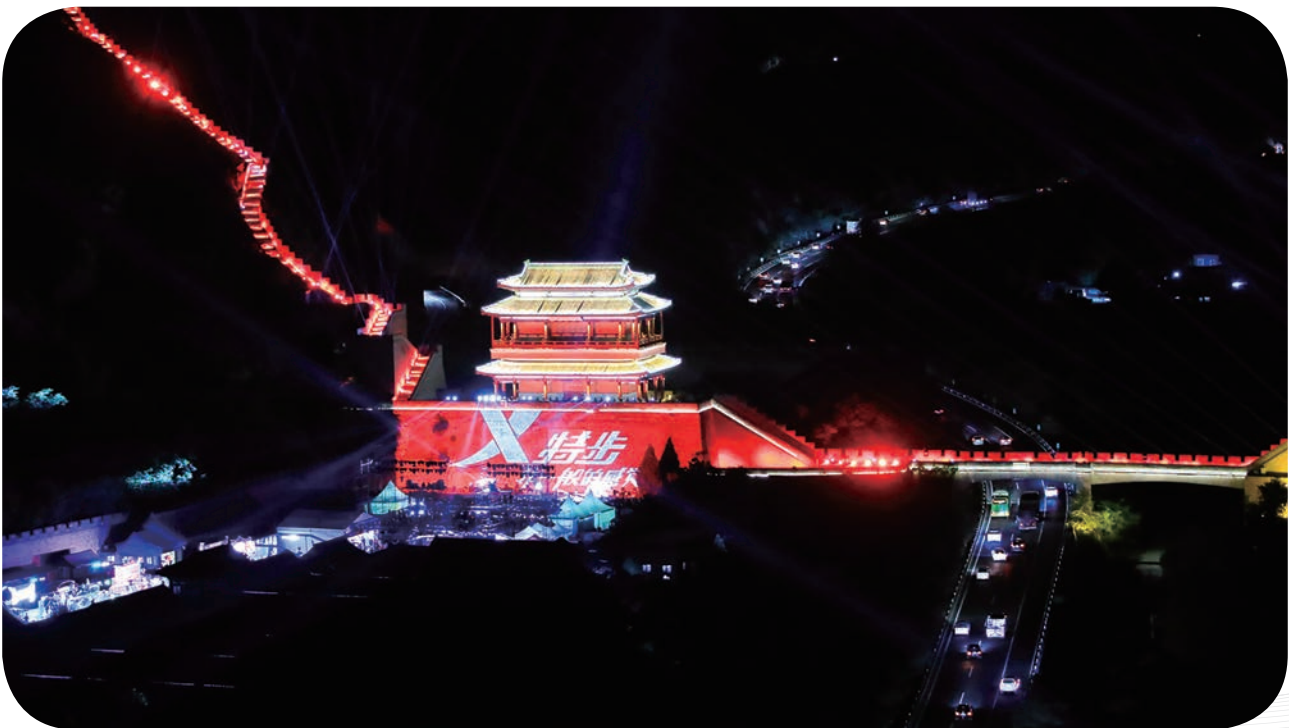




## Foundation Built to Last

Xtep is now well-placed as a brand management company with a clear brand image focusing on professional running that distinguishes ourselves from the industry. Transforming from a fashion sportswear company to a Chinese runners' favourite brand, Xtep continued to rank first among all domestic brands and fourth among all global sports brands in international class marathons held in Beijing, Shanghai, Guangzhou and Xiamen, with the market share ranging from 10% to 20% in 2018<sup>1</sup>.

Adhering to our brand positioning, we benchmark our product technology against international running specialty brands to provide value-for-money professional products to the mass market. During the Year, we designed and manufactured one of the most popular running shoes in China, and have sold more than one million pairs within two months since its launch. Our hands-on approach in Xtep retail network management has also steered us to solid business growth. We have scaled up our effort in lifting store productivity, strengthening customer experience, reinforcing online-to-online interactions and omni-channel retailing. In 2018, same store sales in the Xtep retail network exhibited strong growth at mid-teens level, which signified our success in transformation and continue to evolve our business faster than ever.



<sup>1</sup> Source: Joyrun: footwear worn by participants who finished the full marathon within three hours



### Embark on Creating our 2020 and Beyond

Thanks to our solid foundation built after the three-year transformation, we are optimistic about the growth in the coming years. Our retail sales registered approximately RMB12.2 billion in 2018, which further solidified our leading position as one of the top three Chinese sportswear brands and one of the top five global sportswear brands in China. Nonetheless, it is essential for us to stay vigilant and strive hard for the sustainable growth in 2020 and beyond. We have adopted a two-pronged strategy to capitalize on the new opportunities. Since 2018, we have been proactively expanding our presence in the Asian markets such as India, Thailand and Vietnam, where the local consumers share similar background or culture with the Chinese people. At the same time, our vision is to transform from a single brand company to a multi-brand portfolio company in the next phase of our development. We have been exploring opportunities to collaborate with international sportswear brands to complement Xtep's product portfolio, while enabling us to reach out to a vast customer base especially the more sophisticated group by nurturing their brands' presence in Greater China.





We have previously conducted stakeholders engagement with our high-level executives and continually engage other stakeholders through various channels such as our online platform, to attain their views on our ESG expectations. We have also set up interactive online groups to engage our consumers through questionnaires. Together with different online and offline activities, gratitude and surprise events, we are able to better understand the expectation of our stakeholders.

Our material ESG aspects and their respective relevance are summarized in the table below:

Aspects	Material Issues	Relevance to the Business
Environmental	Emissions	Given the nature of our manufacturing processes, we generate insignificant amount of air emissions, waste water and solid waste. We strictly comply with the national environmental protection laws and regulations of the PRC.
	Use of Resources	4 main types of energy are essential to our daily business operations, namely, electricity, water, natural gas and diesel.
Social	Health and Safety	Occupational safety is another key issue to our manufacturing business. We are committed to providing our employees with a healthy and safe working environment. We strive to reach the goal of zero accident at all sites.
	Employment	A competitive compensation package is necessary to attract and retain talent, as our employees are the foundation of our Company's success.
	Development and Training	We consider our employees as the most important asset of the Group. Providing employee training and aiding their career development are how we differentiate ourselves from peers in the industry.
	Labour Standard	Forced labour and child labour are regarded as key global issues and they are completely prohibited by law and in our Group's operations.
	Supply Chain Management	Besides our own production sites, we relied on outsourced suppliers for the production of footwear and apparel products. As such, supply chain management regarding quality and ESG issues are important to the Group.
	Product Responsibility	As a leading Chinese sportswear brand, consistency and excellence in quality is the foundation of our business. Customer service and relationship management were crucial in maintaining our brand image.
	Community Investment	The Group consider community investment as one of the main drivers to increase our brand value. We strived to promote a healthy lifestyle nationwide. We also donate to different regions across the nation for poverty alleviation and education.

We care about and manage our stakeholders' expectations on us through continuous engagements. We will review and update our materiality results regularly and/or as needed.

**ENVIRONMENTAL  
PROTECTION**

XTEP  
**GRAND  
OPEN**

XTEP  
**GRAND  
OPEN**

**BORN FOR TR**

**TRAINING**

XTEP

**WELCOME**







## Our Vision

As one of the leading sportswear brands in China, it is our responsibility to demonstrate corporate citizenship and minimize our impact to the environment. To limit our environmental impact, we mainly seek to improve our resource efficiency and reduce our control our environmental emissions to the environment. We are also committed to complying with all applicable environmental laws and regulations in the locality where we conduct our business.

As part of our environmental management effort, we have successfully implemented an ISO14001-certified environmental management system in all of our production sites since 2010. Under the environmental management system, we have the goal of “zero chemical and explosion incidents” and in full compliance with laws regulations in relation to hazardous waste disposal and noise emissions. To reflect changes in the organizational structure of our factories, we reviewed and updated accordingly our internal policies on the management of environmental incidents, which covers the management, reporting, investigation, follow-up and evaluation of environmental incidents for the prevention of possible incidents.

## Improving Resource Efficiency

To improve the resource efficiency of our production, we have adopted various measures and initiatives to conserve energy, water and other natural resources along the production chain.

### Use of energy

The Group’s major energy consumption consists of electricity, natural gas for boilers and diesel for backup generators. Echoing the PRC government’s plan on pursuing green development, we continued to improve our energy efficiency during the Year.

Use of Electricity (in kWh)	2017 <sup>1</sup>	2018	% Change
Fujian Quanzhou main Factory	14,702,190	<b>14,604,590</b>	-1%
Fujian Jinjiang main Factory	2,914,000	<b>2,852,100</b>	-2%
Anhui Factory	4,248,260	<b>4,595,716</b>	+8%
Hunan Factory	2,103,453	<b>2,814,400</b>	+34% <sup>2</sup>
Fujian Quanzhou Koling Factory	882,360	<b>604,200</b>	-32% <sup>3</sup>
Annual Total	24,850,263	<b>25,471,006</b>	+3%
Use of Natural Gas (in m <sup>3</sup> )	2017	2018	% Change
Total	68,748	<b>69,045</b>	+0.4%
Use of Diesel (in kg)	2017	2018	% Change
Total	3,238	<b>2,781</b>	-14% <sup>5</sup>

## Improving energy efficiency

In 2017, we have upgraded the pipeline system at our Quanzhou production site, which improved the efficiency and stability of our energy and water supply. In 2018, we have switched to 100% natural gas for powering the boilers at our production sites.

We had also invested on automation of our production lines and computer-controlled sewing machines in 2017. The computerized production have since improved our production efficiency and facilitates better management of our production-related data, hence allowing us to make more reliable forecast to promote efficient use of our resources.

This Year, we continue to improve our energy efficiency through improvements in the hardware of our factories. To further reduce our energy consumption, we had also been replacing our existing light fixtures with LED models which are more energy efficient. During the Year, we have completed the replacement of all existing light fixtures at our factories and workshops.

<sup>1</sup> 2017 figures have been restated to align with the current the operation and data collection practice.

<sup>2</sup> The increase is mainly due to: (i) the introduction of a new production line in February 2018; and (ii) the installation 27 air-conditioning units and 300 ceiling fans in Hunan Factory.

<sup>3</sup> Electricity consumption of the research and development building at the headquarters was included in Koling Factory’s 2017 figure, and was excluded in the 2018 figure.



The behaviour of our employees also plays an important role in reducing our energy consumption. We have established clear energy-saving guidelines and as part of our employee education all employees are required to learn about the guidelines. We also make use of internal communication materials like posters to remind our employees of the Group's latest environmental policies and measures.

### Use of water

During the production processes, the majority of water consumption arises from the laundry of finished garments and the use of water for boilers. Our dormitories also contributes to a major part of our water consumption. We strive to improve efficiency in both our factories and dormitories through several measures including process improvement, and water recycling and reuse.

#### Improving water usage efficiency

We have been contributing to Quanzhou City's initiatives to become a National Water Saving City since 2016, and had replaced all water fixtures with sensor-type ones to prevent wastage. Water-saving guidelines were established to provide employees with water saving tips and encourage staffs to implement water saving initiatives in daily operations. Similar to our energy-saving guidelines, we communicate our water-saving guidelines along with the routine safety education to all employees.

To encourage water conservation at our dormitories, the user-pays principle is adopted and employees have to pay for their water use per their actual consumption. By linking consumption to monetary incentives, it motivates our employees in adjusting their consumption behaviour and prevent unnecessary wastage of water.

Use of Water (in m <sup>3</sup> )	2017 <sup>4</sup>	2018	% Change
Fujian Quanzhou main Factory	294,227	<b>323,665</b>	+10%
Fujian Jinjiang main Factory	68,707	<b>60,482</b>	-12%
Anhui Factory	11,834	<b>24,160</b>	+104% <sup>5</sup>
Hunan Factory	26,996	<b>30,106</b>	+12%
Fujian Quanzhou Koling Factory	21,857	<b>17,437</b>	-20% <sup>6</sup>
Annual Total	423,621	<b>455,850</b>	+8%

### Emissions Control

#### Greenhouse gas emissions

The Group recognises the importance of greenhouse gas ("GHG") gas as a global issue. We understand that the use of energy is a significant source of greenhouse gas emission from our operations, and seek to reduce our GHG emissions through various initiatives and hardware improvements.

Since 2015, our supplier factories and own factories have replaced the existing coal and diesel boilers with natural gas boilers as per government request to improve our energy efficiency and to reduce GHG emissions. We are setting up a system to monitor the carbon emission for new suppliers, and will also look into assessing our own GHG emission in the next few years. For more information on the energy-efficiency measures applied, please refer to section 5.2 "Use of Energy".

#### Air emissions

During our manufacturing processes, the major sources of air emissions were from the fuel use of boilers and back-up generators in the production facilities. To reduce air emissions, we had switched from diesel to natural gas for powering our boilers. During the Year, we had also invested over RMB2 million to upgrade the exhaust system of our forming machines, in which exhaust gas would be treated with UV light and activated carbon before emission, reducing VOC and other chemical contents in the exhaust gas.

<sup>4</sup> 2017 figures have been restated to align with the current the operation and data collection practice.

<sup>5</sup> The increase was due to the installation of water curtain air-conditioning at the facility in 2018.

<sup>6</sup> There was a malfunction of water meter for two months in 2018, resulting in lower recorded water consumption comparing to 2017.



## Wastewater discharge

Our production operations generate an insignificant amount of wastewater, mainly from the laundry of finished products, boilers and domestic sources like our offices and dormitories. In handling the wastewater, we follow local wastewater discharge requirements and discharge our wastewater to the municipal sewage pipelines.

## Waste management

The Group has established detailed management systems for the storage and disposal of wastes as well as emergency protocols to facilitate proper handling of hazardous waste. We strictly comply with local government laws and regulations regarding waste treatments.

## General waste

In managing general waste, we uphold the principles of reduce, reuse and recycle throughout the different functions of the Group. All recyclable wastes are categorized and recycled centrally. Other general wastes from our operations are being properly disposed of in accordance to local requirements. External contractors were appointed for proper handling and disposal of general non-recyclable waste.

We continuously optimizes our production process in order to better utilise the raw garment materials and reducing material wastages. Rags and leather are collected by recyclers periodically and we try to minimize the disposal of these raw materials of as wastes.

To reduce wastes generated from the use of packaging materials, we have introduced shoe boxes made with recycled paper, and attached handles to the boxes to save the need for shopping bags. We will continue to optimize the designs and materials used for our packaging to reduce waste generation.

## Hazardous waste

Our production facilities are principally engaged in the cutting, sewing, finishing and packaging of garments. Majority of raw materials are purchased from qualified fabric suppliers screened by our supplier code. Hazardous wastes are managed from the very beginning of our production chain.

The most common hazardous wastes we produce during the manufacturing process are used industrial glues and its containers, though in limited quantity. We source all of our glues from qualified international suppliers and all the glues we use has passed relevant environmental testings for hazardous chemicals and odour.

Regarding the limited hazardous waste generated, we have appointed qualified third-party companies for proper handling and disposal, ensuring that the process is in compliance with the local laws and regulations on hazardous waste disposal.

## Regulatory compliance

During the Year, we were not aware of any material non-compliance with laws and regulations relating to environmental emissions.

## The Environment and Natural Resources

The significant environmental issues faced in our businesses in relation to emissions and the use of resources were disclosed in the above sections.



PRODUCT  
RESPONSIBILITY





It is the Group's goal to provide consumers with high quality professional sportswear products, enabling them to pursue their ideal lifestyle. Therefore it is of utmost importance that we ensure the quality and safety of our products and services meet the high expectations of consumers.

To maintain high quality product offerings to our customers, our effort can be categorised into the three aspects of (i) product quality management; (ii) consumer relationship management; and (iii) product innovations.

## Product Quality Management

We take pride in the quality of our products, and has established and applied in all production lines a set of standardised operation procedures since 2003 based on ISO9001 quality management standards to ensure product quality. We require our outsourced suppliers to follow the same standardised procedures as well as quality checks conducted by the Group. All raw materials used by suppliers are collectively procured by the Group to ensure quality consistency.

### Assurance of product quality

A well-trained quality assurance team, led by the chief quality officer, is responsible for the constant monitoring of manufacturing processes and internal quality control of our products. The team's assurance procedures strictly comply with the Group's quality control system that is reviewed and updated annually.

The quality assurance team is responsible for monitoring both the quality of our own production and the quality of our outsource suppliers. Regular inspections are performed on our major third party suppliers' compliance to the Group's standards on product quality and safety. In 2018, the quality assurance team worked with the continuous improvement department to assess the quality management system of our tier-one footwear and apparel suppliers. Based on the assessment results, suppliers are required to undertake remedial actions with follow-up assessments scheduled in 2019, so as to continuously improve the quality management capability of our suppliers.

### Advanced manufacturing equipment and laboratories testing

As one of the leading sportswear brands in China, we continuously introduce latest technology and equipment to improve our manufacturing processes and product quality. In 2018, we have introduced a demonstration production line with

new machineries including full-automatic non-die-cut cutting machine, computer sewing machine for full-automatic template operation, computer self-powered control module assembly line with miniaturized design, and full-automatic hot and cold (hot glue) lamination (head). The automated production line improves the accuracy and precision of our production processes, further improving the quality of our products. Based on the results of the demonstration production line, we will gradually upgrade our other production lines to become a benchmarking factory.

Other than high-tech equipment, our in-house nationally certified laboratories also contribute to our success. The laboratories conduct tests on raw materials provided by suppliers, ensuring product safety and compliance to the relevant product laws, and before any finished goods are shipped, sample testing would also be carried out where the procedure strictly follows the testing and management system in place. During the Year, we provided ISO9001 training to our adult sportswear suppliers and launched the quality assurance accreditation programme to our tier-one suppliers. Currently, 26 tier-one suppliers are accredited to perform self-inspections on their products. In 2019, we will continue build the quality assurance capability of our supply chain by focusing on our tier-one and tier-two suppliers.





## Leading industry standards in China

At the frontline of the Chinese sportswear industry, we are a pioneer in advancing industry standards. By using our influence as an industry leader, we have been endeavouring to gradually improve the industry's production quality and product safety through participating in different industry coalitions and drafting of industry standards.

For example, we have participated in the drafting of the footwear product standard of the National Rubber Standardization Committee and the apparel product standard of the National Apparel Standardization Technical Committee. We have also been a regular chair member of the "Quality and Credibility Alliance" since 2016, in which we work with the China National Institution of Standardization, China Association for Quality and ACSIQ to get updates on the latest trends in product-related laws, and contribute to policies drafting by sharing our in-depth industry experiences and knowledge.

## Consumer Relationship Management

### Standardized consumer service procedures and training

To provide our consumers not only with quality products but also the same high standard of shopping experience consistently in every retail store, we have established and implemented a set of standardized training modules. Trainings and class room seminars are provided to all staff in retail stores.

In order to deliver impactful customer experience, we proactively support the ongoing training and development programmes particularly for our retail staff so that consistency and excellence in customer experience and services can be reinforced and embedded in daily retail operations. Since 2014, we started to offer universal training to our retail staff via our "Xtep Retail Learning Center" which provides various courses including store manager training, product display instruction and store efficiency improvement workshop. We have also made these courses available online, which achieved over 1.3 million hits in 2018.

We also introduced our retail management application "Super Shopping Guide", which has been rolled out to over 90% of our stores covering around 23,000 staff. The application provides training videos and articles which are frequently updated to complement new sales campaigns and new product launches.

For example, we have offered six learning series with a total of 71 courses on building the abilities like customer services and leadership skills of our retail staff. Employees would be evaluated through the App, which would serve as an integral part of their annual performance assessment. Surprise channel checks are regularly conducted by our retail management team, with retail stores and retail staff rewarded with their delivery of excellent and impressive services.

### Product recall and consumer complaint process

Customer satisfaction, among other relevant indicators, has been regarded as one of the important areas of our business performance. To ensure timely handling of customer dissatisfaction and complaints, a dedicated "customer service" division affiliated with the Group's quality management centre is responsible for responding and handling of any customer complaints and product return and recalls due to quality irregularity, according to relevant operational policy established by the Group.

Depending on the estimated amount of losses, the Group categorized the severity of product recalls into three different levels. For a major product recall, a comprehensive incident investigations have to be completed by the quality management centre within 15 working days and a "responsibility attribution report" have to be submitted to the senior management and human resources department. Once the persons responsible for respective incident are identified, they need to provide reasonable corrective measures for future prevention and improvement within 10 working days.

In 2018, the return rate of our product was approximately 2.6 out of 1000 products sold.





## Consumer feedback and market survey

To better understand market trends and the expectations of consumers, we actively seek for the feedback of our customers through different channels. By understanding consumer preferences, we can develop products that best fit their needs and be able to improve their living quality.

For our e-commerce business, we have set up interactive online groups to conduct questionnaires with our members. We also organize online and offline activities, gratitude and surprise events from time to time to better communicate with customers and discover their potential needs in a timely manner.

## Product Innovation

Adhering to our brand positioning, we benchmark our product technology against international running specialty brands to provide value-for-money professional products to the mass market. During the Year, we continued to work closely with our partners to co-develop new products and materials, leading to not only improvements in athletic performances for users, but also minimizing negative impacts to the environment caused by our product chain.

## Innovative design and technologies

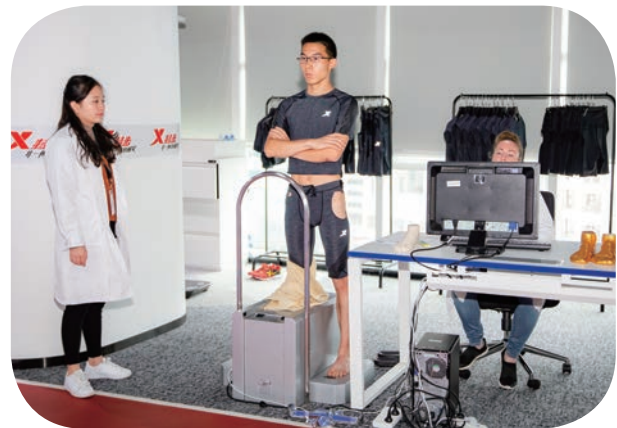
As a local pioneer in producing professional sports product, the Group always aim high in product innovation. We set up a dedicated designer team based in Xiamen. The team consists of international design talents and combines solid expertise in global sportswear brands with design and technology knowledge, to offer creative sportswear products for both performance and comfort. We also established our first and the only dedicated running research laboratory in China led by more than 40 international scientists and engineers. We have been collaborating with leading international fibre material developers such as 3M, the Dow Chemical Company and INVISTA, and will continue to work on new proprietary technologies for improving footwear. In 2018, the laboratory have designed and manufactured our first-place winning marathon shoes as seen in various international class marathons in China.

## Applications of environmentally friendly raw materials

Besides functional features, we also seek to adopt environmental friendly materials in our product to reduce their environmental impact. For example, we introduced the X-Organic cotton and Dupont™ Sorona® material to our products. Made in part with renewable plant-based ingredients, Sorona® is a lightweight, soft and elastic material with lower environmental impact compared to conventional functional materials. We will continue to work with our partners to explore the possibility to further incorporating environmentally friendly materials in our products.

## Regulatory Compliance

During the Year, we were not aware of any material non-compliance with laws and regulations relating to product responsibility.



# FOOTWEAR TECHNOLOGIES

## RUN FAST

## RUN DYNAMIC

## RUN FIT

### FOR EXPERT/ADVANCED RUNNERS

### FOR INTERMEDIATE RUNNERS

### FOR BEGINNER RUNNERS

Who participate competitively in marathons or triathlon, and look for high performance

Who look for both performance and comfort

Who prioritize comfort in their exercise experience



#### RC 160 shoes

One of the lightest running shoes in China, weighs only 160 grams, have strong shock absorption, designed for expert/advanced runners

#### RC 300 Shoes

Uses two types of materials in the shoe sole, with gel cushioning in the front and heel of the shoe to provide strong shock absorption, and TPU in the center for more structural foot support from rolling



Offers bounce and soft rebound in shock absorption with improved 4.0 generation soft and high resilience material



Uses Xtep's signature DNA hollow loop structure to support shape recovery from compression and impact



Uses cube modules to support pressure from the foot and ground, plus memory foam-like material to bring increased cushioning



Made from high elasticity TPU bubbles, which absorbs and releases more energy during running, making each step easier



Applies uni-body three-dimensional double-layer weaving technique, with mesh arrangement according to stress points to improve breathability and seamless fit to foot



Utilizes an air-cushion system around the entire sole, providing all-around shock absorption



A key shoe insole technology the Group co-developed with the Dow Chemical Company. The insole provides memory foam-like comfort to fully enclose the foot



Material from the 3M Company provides lightweight insulation for winter products



# APPAREL TECHNOLOGIES

## XTEP-DRY



KEEP YOU DRY



## XTEP-DRY 2.0



Absorbs and transfers moisture on the skin quickly to fabric surface through special yarn and weaving arrangement, which then evaporates in air for instant absorption and immediate dryness

## XTEP-COOL



KEEP YOU COOL



## Polar Ice Fiber



Innovative silky material, laced with rapid heat conduction and dissipation technologies, providing cooling comfort

## Cooling Fibers



Cooling Xylitol is woven into special clothing fibers, which increases the fiber's rate of heat dispersion, leading to long-lasting coolness during exercise

## XTEP-WARM



KEEP YOU WARM



## Far-infrared Warm



Applies ceramic printing which can effectively absorb and reflect the far-infrared of human body heat, to improve thermal insulation and provide increased warmth without extra weight

## Heat Retain



Newly developed uni-body heat containment structure using seamless down filling technique that prevents heat loss from pin-hole, achieving high heat retention

## Thermolite®



Material from INVISTA (part of KoSa) from the United States with fine technology that creates a layer of air protection blocking cold air from outside, keeping the wearer warm and dry

## XTEP-COMFORT



KEEP YOU COMFORTABLE



## Dupont™ Sorona® materia



Lightweight, soft, elastic material that easily recovers shape

## Xtep Sports Elastic Technology



Uses highly elastic fiber that allows athletes to stretch freely during exercise, this is applied specifically to indoor training series

## X-SEAMLESS-TECH



Uses seamless knitting technique in professional sports apparel to reduce friction during sport

## XTEP-SHIELD



KEEP YOU PROTECTED



## Anti-UV



Protects the wearer from harmful ultraviolet radiation during outdoor sports through protective chemicals weaved into fabric

## Waterproof & Raised Permeation



Protection from water and quick evaporation of moisture on the body surface through special coating on fabric, keeping body dry and comfortable

## XTEP-STRONGER



MAKE YOU STRONGER



## XTEP-ENERGY technology



Releases negative ions to alleviate sports fatigue, helping runners harness more energy during professional sports

# SUPPLY CHAIN MANAGEMENT



X 特步

全员参与 强化管理  
精益求精 铸造品质

Xtep

风行



With over 54% of our footwear and 87% of our apparel production outsourced, suppliers are a crucial part of the Group's operations. To ensure that our suppliers' capability in delivering quality products that meet the Group's standards, we have a dedicated team responsible for monitoring suppliers' production qualities. We care about the business conducts of our suppliers and have developed detailed policies and procedures to effectively manage their environmental and social performance and responsibilities.

When we consider collaborating with a new supplier, we perform a thorough assessment of their capability and performance before accepting them as a qualified supplier of the Group. As the first step, we would perform an initial screening on suppliers' compliances and certifications regarding quality, environmental and human rights issues. Suppliers who pass the initial screening are then subject to an on-site assessment which consist of the research and development capability, quality management, production management, and their environmental and human rights compliance status. Only suppliers with an on-site assessment score of 60 or above can be introduced to our list of qualified suppliers and collaborate with the Group.

Our suppliers are required to comply with our Supplier Code of Conduct (the "Code") which outlines our requirements regarding a supplier's capability, product quality, compliance and qualifications. The Code requires that part of the pre-requisite of our contract with the suppliers, the suppliers shall continue to comply with the Code's requirements during our collaboration. The Code concerns the environmental and social

performance and responsibilities of suppliers, and list out our requirements on topics including environmental compliance, labour standards, employee welfare and human rights. For example, it is stated in the Code that employees of our suppliers can only work for maximum of 10.5 hours per day. Every quarter, our procurement, legal and human resources department would perform assessments on the suppliers' compliance with the Code. Any violation of the Code will be handled in accordance to our internal policies and guidelines, which may lead to warning or fines for minor violations and disqualification of suppliers for major violations.

In addition to our quarterly assessments, suppliers are also subject to the supervision of the local governmental departments including the Ecology and Environment Bureau and the Human Resources and Social Security Bureau. We would refer to the assessment reports of the local governmental departments on the human rights and environmental performance of suppliers, and take action when violations are observed.

To encourage and support our suppliers in developing environmentally friendly production facilities and a fair working environment, we provide regular training to our suppliers. We provide support to suppliers who are interested in upgrading their management system, but lack the resources and experience required to do so. During the Year, we supported the suppliers of adult shoes and apparel to develop their ISO9001 quality management system by providing training. In 2019, we will continue to support our tier-one and tier-two suppliers to develop their quality management system and enhance their quality assurance capabilities.



# HUMAN RESOURCES





At Xtep, it is our top priority to provide fair employment and safe working environment to our employees. We believe that our employees are the foundation of our success and seek to attract and retain the best talents for the continuous growth of our business. It is our goal to provide our employees with a comprehensive welfare package and diverse career development opportunities within the Group.

## Employees Welfare

It is our goal to attract and retain the best talents for the long-term development of the Group. To retain and motivate talent, the group offers competitive remuneration which is reviewed and adjusted regularly. Employees are entitled to all paid holidays or leaves under local laws, such as statutory holidays, leave, maternity leave, paternity leave and sick leave. Wages provided to our factory workers are significantly higher than the minimum wages required by the local laws. As of 31 December 2018, the Group has approximately 8,500 employees.

We provide a full package of living necessities to our workers, for example, dining facilities, dormitories, sports centres and other leisure areas to improve their living standards. During the Year, we spent over RMB3.3 million to upgrade the living quarters of our employees by changing the dormitories into university-style apartments, started to provide free Wi-Fi at our dormitories, and changed our employee canteen's cuisines to buffet-style. In the same Year, we have also introduced the "Staff Home" at our Quanzhou headquarter and breast-feeding rooms for working mothers of the Group.

To provide leisure activities and strengthen bonding among our employees, we have established 30 staff groups with 1,899 members at our main factory. We also organize and subsidized various events during the Year, such as football and other sports competitions for our staff. As a leading sports products brand, we also encourage our staff to develop a healthy living style. Activities and events are organized to boost their awareness in maintaining a healthy work life balance and to exercise regularly. The Group has set the 21th day of each month as "Xtep running day". All workers are encouraged to run as a way to promote healthy lifestyle.

The Group respect our employees' opinions. Open communication is encouraged to foster mutual trust and respect between the management and employees. Employees may confer local issue with the management through different channels or discuss with their immediate supervisor or senior management team if necessary.

## Equal opportunities, diversity and anti-discrimination

We support diversity and is committed to promoting equal opportunities of all employees in relation to personnel matters including recruitment, training, promotion opportunities, benefits, transfer and dismissal, etc. We ensure that employees are not discriminated or harassed against on their race, age, sex, marital status, religion or belief.

## Child labor and forced labor

The Group respects each individual's basic human rights and strictly prohibits the employment of forced labor and child labor.

Complying with international labor standards and the PRC government's "Provision on the Prohibition of Using Child Labor", we do not employ workers under the age of 16. We also protect the labour rights of our workers and prohibit any form of forced labour within our Group. Employees are entitled to work in an environment with dignity, with the freedom to express their opinions and rest and leave days provided in accordance with relevant government laws and regulations. To allow our employees to have a proper work-life balance and to minimize the potential health and safety risks, we expect only day shifts from our employees and will not arrange night shifts even during peak production season.

## Regulatory compliance

During the Year, we were not aware of any material non-compliance with laws and regulations regarding employment and labour practices.





## Health and Safety Management

It is one of the Group's top priorities to provide a safe and healthy working environment for employees. Since 2010, all of our production sites have been certified by OHSAS 18001 occupational health and safety standards. During the Year, we have updated the internal safety management policies to better suit the current working environment of the Group. The policies cover the reporting, investigation, tracking, evaluation and prevention of accidents at the workplace.

Prior to work commencement, all new employees have to pass the safety assessment at company, workshop and team level. For specific work types that requires special qualification(s), workers must obtain the relevant certificates before performing such work. As a routine reminder, all manufacturing workers would receive a safety briefing before the start of each shift, followed by a summary session after the shift to sum up their experience and lessons learnt regarding safety issues. To identify potential safety risks, a safety officer is present at each shift to check for and remind workers about potential risk factors.

During the Year, we also conducted various safety trainings for all employees to help them understand the safety procedures of their position and enhance their awareness. Throughout the Year, we provided fire safety knowledge training to all of our manufacturing staff at the main factories. Through the training, employees learnt about fire safety theories and the ways to operate fire safety equipment. Furthermore, we also provided body checks, safety trainings to the children of our employees, and different emergency drills to further improve our employees' lives, health and safety.



During the Year, we were not aware of any material non-compliance with laws and regulations relating occupational health and safety.

## Training and Career Development

The Group considers its employees as its most valuable assets and is committed to providing benefits for them. With regard to human resources trainings, a series of on-the-job training programmes are in place to promote the career development of employees. Meanwhile, a system for career advancement has been established to provide employees with clear direction on their career path and upward mobility. Every employee of the Group has an annual performance review and promotion opportunity.

As part of our training effort, we provide orientation programmes and on-the-job trainings to promote personal growth of employees. Training topics covered industry knowledge, technology and product knowledge, industry quality standards and work safety standards. "Xtep University", our corporate training department, has provided various trainings to our staff on top of their routine training. For example, a series of courses were delivered to our middle management to sharpen their leadership skills, and we have also provided corporate culture trainings to our staff. Besides internal trainings, we also provide support to our colleagues for external trainings related to their profession.

Through both internal and external trainings, the Group seeks to equip our employees with the skills required in their own positions, and help them learn about different parts of the Group's operations to facilitate their career development.





## Anti-Corruption

The Group is committed to achieving and maintaining the highest possible standards of openness, integrity and accountability. To prevent as far as possible violations and ensure compliance and operation by the highest ethical standards, the Group has designated and implemented an anti-corruption investigation system, which is subject to annual review and updates, to facilitate our enforcement and control on anti-corruption related issues.

We have high expectations in our employees' conducts and communicates to them our zero tolerance towards any bribery, extortion, fraud or money laundering whether in dealing with public officials or individuals in the private sector. The conduct of our employees are guided by our "Anti-fraud complaints reporting management system" and the "Code of Integrity", which details our anti-corruption requirements with reference to relevant national policies, namely the "Basic Norms for Internal Control" and "Guidelines for Application of Enterprise Internal Controls" released by the PRC government.

A specific whistle-blowing policy is in place to allow employees, business partners and other relevant stakeholders to report illegal or non-compliant activities involving the Group to the risk management and internal audit department and the Audit Committee confidentially. The identity of the whistle-blower and the relevant records of the whistle-blowing are treated with the strictest confidential to prevent possible retaliation.

## Regulatory compliance

During the Year, we were not aware of any material non-compliance with laws and regulations relating to anti-corruption.



**SOCIAL  
RESPONSIBILITY**







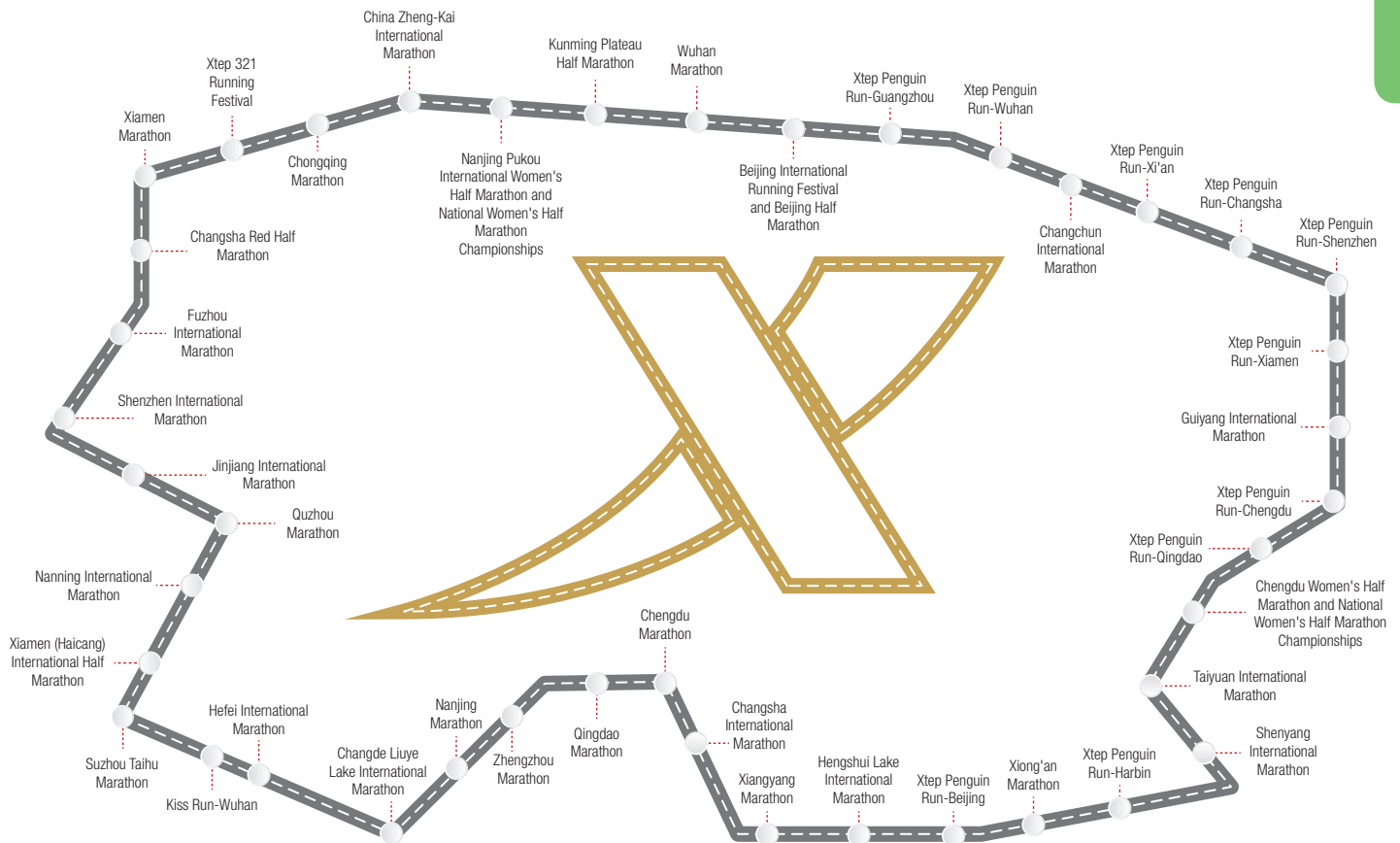
## Advocating a Healthy Lifestyle

To raise public awareness and support the community in pursuing an active, happy and healthy life style, apart from providing them with the best product possible, we also place extensive focus on cultivating a positive atmosphere within the community in engaging sports events. We believe, as a corporate citizen and as a leader in the local sports industry, we are also responsible in advocating participation in sports, by providing them with some of the necessary resources and opportunities.

Throughout the years, we have been promoting participation in running and other mass sports events, some with low entry requirements to get people involved despite their differences in experiences. We also devoted much of our resources in supporting the development of the sports industry in China. We believe an active, happy and healthy lifestyle should be affordable to everyone.

## Running

Distinguishing ourselves from our domestic peers, Xtep identifies uniquely with running. This Year, we continued to be the sportswear sponsor of the highest number of marathons in China for the fourth consecutive year with a total of 42 major marathons and running events in 2018. 31 of them were major marathons, coupled with 10 “Xtep Penguin Runs” in cooperation with Tencent and a “Xtep 321 Running Festival”. The number of total participants reached around 700,000. Similar to last year, we were also the official partner of “Run China” recognized by the Chinese Athletic Association. Furthermore, we continued to be the title sponsor of “Xtep Penguin Run” supported by Tencent Sports.





## Xtep Run Club

Xtep Run Club is the largest and most active brand running group in China. Since its establishment in 2016, the Xtep Run Club has already attracted over 123,000 members with over 1,000 running events organised. The Xtep Run club provides various perks to its members, including dressing and shower rooms, adiposity and foot measurement, safety training for runners and access to activities like local social runs and marathons we sponsored. As of December 2018, we have established 6 Xtep Run Clubs located in popular running places around the country, providing a unique one-stop professional running services for runners. We will set up more of these club house facilities for our members to make running with Xtep a premium experience.

## National sports events

As a leading Chinese sportswear brand, we also seek to contribute to national sporting events and support our own Chinese athletes. We were the official sportswear sponsor for the Chinese delegation team to the 17th Gymnasiade held from 2–9 May 2018, and will continue to support the event in 2020. We are also the title sponsor of the Xtep National Performance, the largest physical competition in China organized by the General Administration of Sport of China. The competition fully evaluated participants' power, speed, stamina, agility, balance, coordination and flexibility. It also guided them to optimize action pattern, develop energy metabolism, choose suitable programmes according to their individual results, and eventually improved their athletic performance in an efficient, safe and scientific way. The event covered nearly 300 fitness clubs and training institutions in more than ten cities in China.



## Football

Apart from running, we consider football as an integral part of our branding strategy. We currently serve the China's football youth and offer value-for-money football related products to students ranging from primary schools to colleges and universities. We will continue to sponsor youth football competitions to contribute to its development in China. For instances, we have been sponsoring the ZSFL Xtep League since 2010. Through the sponsorship, the Group hopes to support the PRC government's vision in promoting football as another national sport in China, especially amongst the young generation.

## Charity

We believe that as a socially responsible corporate, it is essential to give back to the society. During the Year, we continued to engage in social and charitable activities across China, with particular focuses on elderly care, youth education and poverty alleviation. For instances, we worked with Quanzhou Charity Association and donated approximately RMB9.1 million to elderlies; supported China Foundation for Poverty Alleviation with over RMB8.5 million worth of supplies for emergency relieves; and continued to support the Caring Project – Love Launch of the China Next Generation Education Foundation by donating over RMB23.0 million worth of supplies.

In total, the charitable donations made by the Group during the year ended 31 December 2018 amounted to approximately RMB42.6 million.





## Appendix I: HKEX Environmental, Social and Governance Report Guide Index

	Aspects	Section	Remarks
<b>A</b>	<b>Environmental</b>		
<b>A1</b>	<b>Emissions</b>	<b>5.3</b>	
A1.1	The types of emissions and respective emission data	5.3	
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.1	We have yet to assess our greenhouse gas emissions, but we are currently setting up a system to monitor the carbon emission for new suppliers, and will look into assessing our own GHG emission in the next few years.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3	
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3	
A1.5	Description of measures to mitigate emissions and results achieved	5.3.1 – 5.3.3	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	5.3.4	
<b>A2</b>	<b>Use of Resources</b>	<b>5.2</b>	
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	5.2.1	
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	5.2.2	
A2.3	Description of energy use efficiency initiatives and result achieved.	5.2.1	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	5.2.2	There were no issue in the sourcing of water during the Year.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	5.3.4	
<b>A3</b>	<b>The Environment and Natural Resources</b>	<b>5.4</b>	
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	5.4	
<b>B</b>	<b>Social</b>		
<b>B1</b>	<b>Employment</b>	<b>8.1</b>	
<b>B2</b>	<b>Health and Safety</b>	<b>8.2</b>	
<b>B3</b>	<b>Development and Training</b>	<b>8.3</b>	
<b>B4</b>	<b>Labour Standard</b>	<b>8.1</b>	
<b>B5</b>	<b>Supply Chain Management</b>	<b>7</b>	
<b>B6</b>	<b>Product Responsibility</b>	<b>6</b>	
<b>B7</b>	<b>Anti-corruption</b>	<b>8.4</b>	
<b>B8</b>	<b>Community Investment</b>	<b>9</b>	



AQSIQ	General Administration of Quality Supervision, Inspection and Quantitative of the PRC
Board	The Board of Directors of Xtep International Holdings Limited
ESG	Environmental, Social and Governance
ESG Guide or The Guide	Appendix 27 of Hong Kong Stock Exchange Listing Rules and Guidance: Environmental, Social, and Governance Guide
Group or Company	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 9001	International Quality Management System Standard issued by International Organization for Standardization
ISO 14001	International Environmental Management System Standard issued by International Organization for Standardization
Joyrun	A leading Chinese mobile application for runners
KPI	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
OHSAS 18001	International Occupational Health and Safety Standard issued by BSI Group
PRC or China or Mainland China	The People's Republic of China excluding, for the purpose of this ESG report, Hong Kong, Macau and Taiwan
RMB	Renminbi, the lawful currency of the PRC
Share(s)	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
Shareholder(s)	Shareholder(s) of the Company
Xtep	Xtep brand
Xtep University	An internal department of the Group as a training center for employees
Year	For the year ended 31 December 2018





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