



## ABOUT THE GROUP

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 on 3 June 2008. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand “Xtep” is a leading professional sports brand with an extensive distribution network of over 6,100 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

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# OUR BRANDS AND DISTRIBUTION NETWORK



Established in 2001, Xtep is a leading professional sportswear brand with an extensive distribution network of over 6,100 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. As “Chinese runners’ favourite brand”, Xtep’s signature running shoe collection “160X” Series ranked first among all running shoe brands and surpassed international brands for the first time with a wear rate of over 50% in the World Platinum Label Race — the Xiamen Marathon in April 2021<sup>1</sup>.



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.



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.



## MERRELL

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.



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.



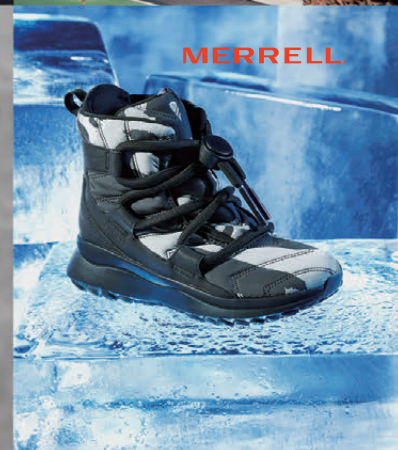
<sup>1</sup> Source: Joyrun (April 2021) – footwear worn by participants who finished the 2021 Xiamen Marathon within three hours

# OUR BRANDS AND DISTRIBUTION NETWORK



# WORLDWIDE

# RETAIL AND DISTRIBUTION NETWORK





# 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 2021, in particular the Management Discussion and Analysis section and Corporate Governance Report contained therein.



A Snapshot of 2021 Annual Report

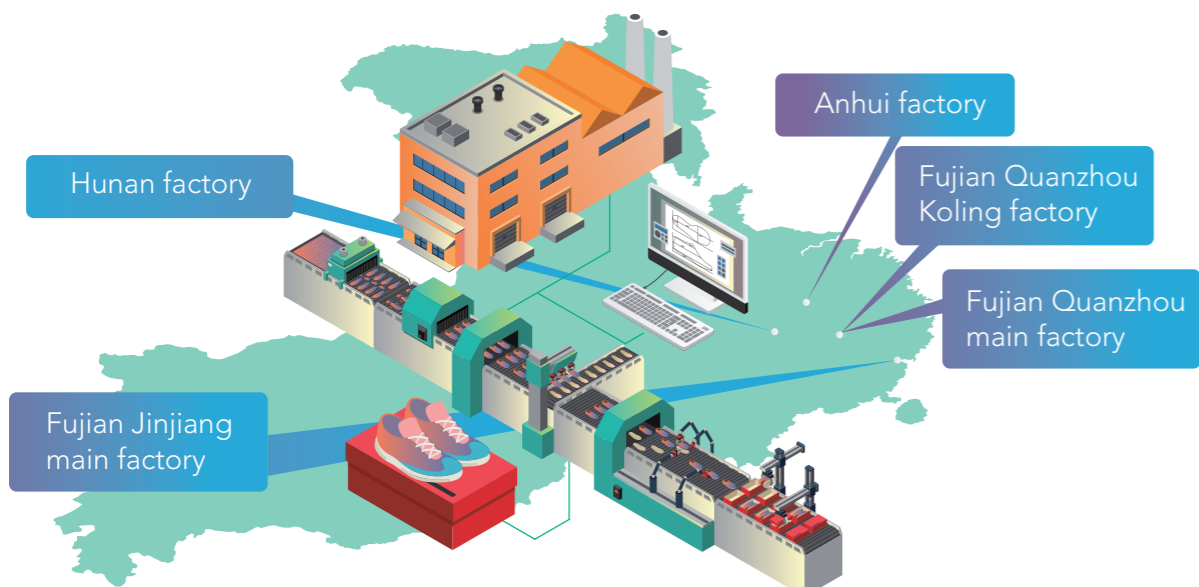
## Reporting Framework

This Report is prepared with reference to the requirements under the December 2019 updated Environmental, Social and Governance Reporting Guide (“ESG Guide”) contained in Appendix 27 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 (“UN SDGs”) and demonstrate how our ESG focus and effort relates to the 17 UN SDGs.

## Reporting Boundary

This Report provides an overview of our sustainability approach and performance for the financial year ended 31 December 2021 (“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:



To present a more holistic view of our ESG performance, we have expanded the boundary of the ESG data reported this year to cover the 12 Xtep Running Clubs and 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	Material environmental and social issues were identified and prioritised with inputs from internal and external stakeholders of the Group. The materiality assessment process, including stakeholder engagement, and the corresponding results are disclosed in the stakeholder engagement and materiality assessment section.
Quantitative	Quantitative key performance indicators for evaluating the Group’s ESG performance are compiled and disclosed in this Report. Refer to the SEHK ESG Guide Content Index in the Appendix for the locations of the key performance indicators (“KPIs”) disclosed. Comparative data in 2019 and 2020 are disclosed along with 2021 where practicable to better understand the Group’s ESG performance over the years. Information on the standards, methodologies, assumptions and/or calculation tools used, and the source of conversion factors used for the KPIs are stated wherever appropriate.
Consistency	Unless stated otherwise, the Group applies a consistent methodology in compiling the ESG data reported to allow for a meaningful comparison of ESG performance over time. Any change in methods or KPIs used is explained.
Balance	The Group strives to achieve objective information disclosure, aiming to provide stakeholders with an unbiased picture of our overall sustainability performance.



# CHAIRMAN'S MESSAGE

## CHAIRMAN'S MESSAGE



Dear stakeholders,

The global sustainability agenda continues to gain momentum amid the COVID-19 pandemic and its importance is escalating in consumers' purchasing decisions. As one of the renowned global sportswear companies with 20 years of solid foundation, Xtep remains proactive in integrating sustainability across our supply chain. We have continued to progress on our sustainability goals by setting out long term sustainability working plan, strengthening the oversight of our sustainability governance, evaluating our Supplier Code of Conduct and assessments, investing in new environmental-friendly products, nurturing our people and taking up social responsibilities.

### Uphold Sustainability Governance to Drive Commitment

To drive our sustainability goals effectively, we established a Board-level Sustainability Committee (the "Committee") and management-level Sustainability Working Group in 2021. With an enhanced sustainability governance structure and a clearly defined roles and responsibilities, we aim to drive the integration of ESG considerations into our business processes with more effective Board oversight and management leadership. The committee is responsible for advising the Board on the Group's sustainability objectives, strategies, priorities, goals and report to the Board at least twice a year on the ESG progress and performance of the Group. During the year, the Board has approved the "10-Year Sustainability Plan" focusing on the planning of sustainability to enhance our environmental, social and supply chain management.

### Set Out Long-term Sustainability Strategies to Return to Society

As a commitment to return to the society, we announced our "10-Year Sustainability Plan" focusing on three pillars, namely supply chain management, environmental protection and promotion of social responsibilities along our operations. Five environmental protection targets were also set out in the plan, which focus on sustainable innovations, chemical use, energy-saving and air emission, waste management and water management to minimise the environmental impact from our production.

With most of our product footprint coming from the supply chain, proper supply chain ESG issues management is key to reducing our impact. To strengthen our suppliers' standard on the environment, employment, and health and safety, we revisited the supplier selection assessment and their ongoing evaluation. In placing a higher emphasis on suppliers' ESG performance, we also upgraded a new set of Corporate Social Responsibility ("CSR") indicators as one of the criteria for evaluation and adjusted the weight of the CSR criteria from 10% in 2020 to 20% during the year in overall supplier evaluation.

We endeavoured to innovate and promote products manufactured with more sustainable materials across all brands. Our polylactic acid ("PLA") T-shirt under the core Xtep brand set an exemplar of demonstrating our effort in launching environmentally friendly products. New brands such as Palladium and Saucony also introduced Pampa Earth Collection Series and Jazz Court RFG made of 100% natural materials, respectively.

To encourage our staff in career and personal development, we leveraged our new Talent Development Centre to equip them with professional skill sets to achieve both their job and personal goals. Over 270 courses were offered to the employees, covering leadership development, e-commerce, human resources, commercial, and technical skills at different career stages.

We insist on contributing to the development of the communities where we operate. In 2021, given the devastating floods which severely affected Henan and Shanxi provinces in Mainland China, we reacted swiftly and donated more than RMB55 million worth of relief supplies through the China Foundation of Poverty Alleviation and the China Soong Ching Ling Foundation to support the recovery effort. We have also expanded our partnership with China Next Generation Education Foundation to support children in poverty. Every year, we spare no effort in sponsoring physical marathons and running races in Mainland China to promote and encourage healthy lifestyle and regular exercises.

### Look Forward to a Sustainable Future

We are excited to build on the positive momentum of our sustainability actions in 2021. Moving forward, it is important for us to stay vigilant and adaptive in a world of change. On behalf of the Group, I would like to thank our employees, customers, and stakeholders for their efforts and continued support. I am confident that our strong sustainability governance and clear environmental protection targets can help identify opportunities to enhance our sustainability strategies and solidify the Group's leading position in the sportswear market.

**Mr. Ding Shui Po**  
Chairman  
16 March 2022



# 2021 AT A GLANCE

## Financial Highlights

For the year ended 31 December 2021

### Revenue



RMB  
**10,013 million**  
↑ **22.5%**

### Operating profit



RMB  
**1,396 million**  
↑ **52.1%**

### Basic earnings per Share



RMB  
**36.4 cents**  
↑ **74.5%**

### Full year dividend per Share



HK  
**25.0 cents<sup>1</sup>** | **Payout ratio: 60.0%**

<sup>1</sup> Included the proposed final dividend of HK13.5 cents per Share, which will be subject to the approval of shareholders at the forthcoming annual general meeting

## Our ESG Achievements and Recognitions



Established the Board-level Sustainability Committee and Sustainability Working Group to drive Xtep's sustainable business development



Announced our "10-Year Sustainability Plan" that focused on supply chain management, environmental protection and promotion of social responsibilities along our operations



Dedicated ESG performance assessment for supplier selection and ongoing supplier evaluation



Launched environmentally friendly product PLA T-shirt supported by Xtep environmental protection technology platform and scaled up the PLA content from 19% to 60%



Donated over RMB156 million worth of sportswear and cash to the society and schools in Mainland China amid the COVID-19 pandemic



Sponsored seven physical marathons and running races in Mainland China in 2021<sup>2</sup>

## Governance Recognitions



### IR Magazine

- Best IR Company: Consumer Discretionary Sector in Greater China
- Best Annual Report in Greater China



### Hong Kong Investor Relations Association

- Overall Best IR Company Award
- Best IR by Chairman/CEO
- Best IR by CFO
- Best IRO
- Best IR Team
- Best Investor Meeting
- Best Annual Report



### Economic Media Association of China

- Top 10 Economic Personages of China — Mr. Ding Shui Po

## Sustainability Recognitions



### The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University

- "Honourable Mention of ESG Excellence (Hang Seng Composite Index Constituent Companies)" of Hong Kong Corporate Governance and ESG Excellence Awards 2021



### China CSR Annual Forum

- Green Product Award 2021

### China National Textile and Apparel Council

- Participated in the accelerating plan for Chinese fashion brands' stewardship in tackling climate change

<sup>2</sup> Most of the international class and large-scale sporting competitions were cancelled or postponed amid a new surge in coronavirus cases in 2021 in Mainland China



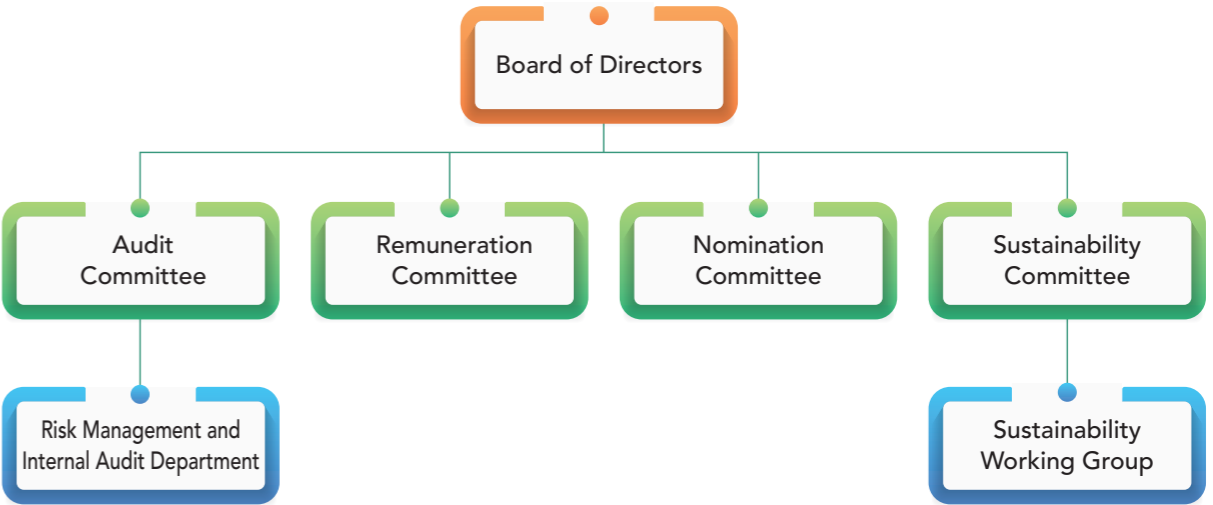
# CORPORATE GOVERNANCE AT XTEP

## Our Sustainability Governance Structure

We recognise the importance of implementing robust ESG governance to manage and enhance the Group’s sustainability performance. To assist the Board in its oversight of ESG-related matters and drive integration of ESG considerations into our business activities, the Group established a dedicated Sustainability Committee (“the Committee”) under the Board on 1 January 2021. Chaired by our non-executive director (“NED”) Mr. Tan Wee Seng, and with executive directors, Mr. Ding Shui Po and Ms. Ding Mei Qing, and 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 to recommend 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.



Board of Directors	Sustainability Committee	Sustainability Working Group
<p>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.</p>	<p>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.</p>	<p>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.</p> <p>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.</p>

### Key ESG governance activities in the year

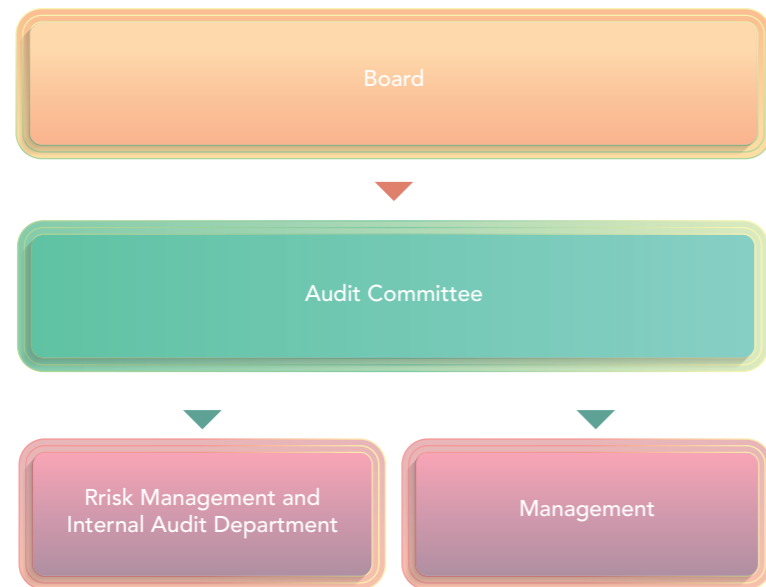
Between 1 January 2021 and the date of this report, the Sustainability Committee conducted three meetings to review and approve the proposed sustainability framework and targets submitted by the Sustainability Working Group. A “10-Year Sustainability Plan” was set out in 2021 to reflect the Group’s ambition toward sustainable development in the next ten years. For more information, please refer to section — Our Sustainability Framework and Strategies.

**Risk Management and Internal Control**

Risk management is integrated into the Group’s business and decision-making processes. The Board recognises its overall responsibility for the Group’s risk management and reviews its effectiveness on an ongoing basis.

The risk management system of the Group is consisted of a defined management structure with limits of authority and well-established policies and procedures, and are designed to facilitate effective and efficient operations, ensure the reliability of financial reporting and compliance with applicable laws and regulations, identify and manage potential risks, and safeguard assets of the Group. In addition, the Group conducts regular reviews of the effectiveness of the risk management systems from time to time to ensure they can meet and deal with the dynamic and ever-changing business environment.

**Xtep risk governance organisation structure**



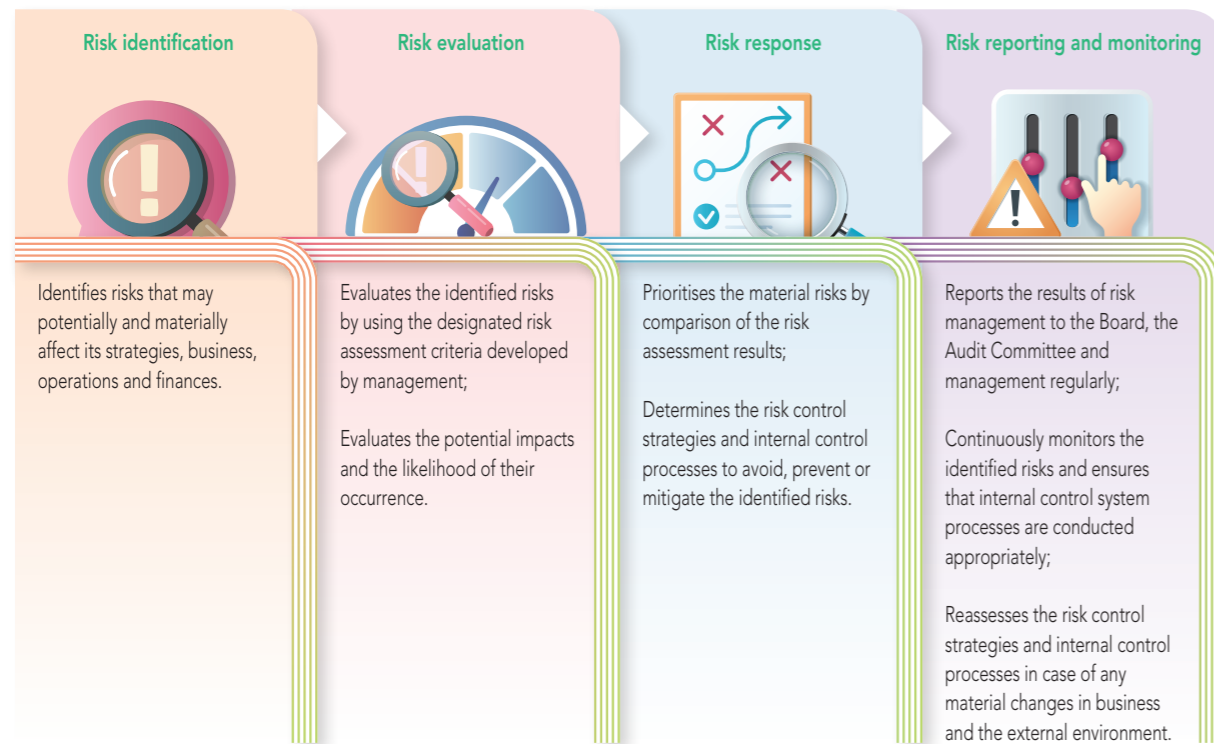
The primary responsibilities of each party of the Group’s risk governance structure are as follows:

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"> <li>(i) design, implement and maintain risk management and internal control systems appropriately and effectively;</li> <li>(ii) identify, evaluate, manage and control the risks that may have potential and material impacts on the processes of the operations;</li> <li>(iii) monitor risks and take appropriate methods to mitigate risks;</li> <li>(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</li> <li>(v) provide confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems.</li> </ul>



**Risk identification and management**

The Company has established a risk governance organizational structure with clear responsibilities and authorities. The processes used by the Group for identification, assessment and management of material risks are summarised as follows:



**Climate-related risks and opportunities**

We continue to review our risk profile and identify and assess potential ESG-related risks. We are aware of the emerging issue of climate change and its effect on the Group. Such climate changes, including global temperature increases and changing climate patterns worldwide, can present physical and transition risks to our operations. Physically, more frequent extreme weather conditions may disrupt our supply chain, and the increasing temperature may ultimately affect people’s outdoor recreational activities, which would subsequently affect our product sales. Besides, China and other countries’ plans to transition to a low-carbon economy may also require additional investments in renewable energy and other efficiency initiatives, which could increase our production costs.

We are in the course of formulating policies on climate change. We already have implemented various initiatives to mitigate the impact of climate change by managing our energy consumption and developing environmentally friendly products. During the year, we established a long-term Sustainability Plan to provide a clearly defined path for the Group to achieve sustainable growth. In addition, we will pay attention to the risks and opportunities associated with climate change and review our management approach as appropriate in the future.

**Conflict of interest**

We strive to avoid any potential conflict of interest or appearance of conflict. Our Anti-Corruption Policy sets out the professional and ethical standards for our employees to observe in all business dealings, and we are drafting the management measures related to conflict of interest. In addition, all suppliers are required to comply with our Supplier Code of Conduct to ensure that they are fully aware of the Group’s requirements.

**Internal audit**

Our internal audit function is performed by its risk management and internal audit department, which plays a vital role in assessing the effectiveness of the risk management and internal control systems of the Group and reports to the Audit Committee regularly. The Board and the Audit Committee considered that the risk management and internal audit department was provided with adequate resources and budget and qualified staff with sufficient experience and training programs to perform its internal audit function.

**Compliance management**

We have established 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 the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and the chief executive officer. 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 overall corporate strategies, planning and business management of the Group. 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 authorities is ensured by the operation of the Board and the 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 and Whistleblowing Policy**

We are committed to achieving and maintaining the highest possible standards of openness, integrity and accountability. To prevent as far as potential violations and ensure that operations comply with high ethical standards, the Group has specific whistleblowing policies for 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 blowers and the relevant whistleblowing records are kept strictly confidential.

Employees are made aware of the Group's "Anti-fraud complaints reporting management system" and the "Code of integrity", which details our anti-corruption requirements concerning relevant national policies such as the "Basic Norms for Internal Control" and "Guidelines for Application of Enterprise Internal Controls" published by the Chinese government. To raise staff awareness regarding anti-corruption topics, we organised anti-corruption training for new joiners in 2021 to build a culture of integrity among them. The training was also recorded and provided to employees in an e-learning format.



Number of anti-corruption trainings in 2021:  
**4**

In 2021, there was one non-compliance of the Group's staff, which was investigated and verified internally. The staff was handed over to the authorities for the offence.

### Data Security and Customer Privacy Protection

We recognise the increasing concerns over data privacy and acknowledges our responsibilities in safeguarding customers' data and information. We have formulated and implemented various internal policies strictly according to laws and regulations, including the "Cyber Security Law of the People's Republic of China" and "Personal Data (Privacy) Ordinance of Hong Kong" to manage and protect the safety of our customers' data and information.

Our commitment to data security and customer privacy protection is formalised in the "Policy on Data Governance", which is based on the following fundamental principles:

	<ul style="list-style-type: none"> <li>• Only collect customers' data and personal information that are relevant and required to conduct our business.</li> </ul>
	<ul style="list-style-type: none"> <li>• Will not disclose customers' data and personal information outside the Group unless we have obtained our customers' consent or are required by law.</li> </ul>
	<ul style="list-style-type: none"> <li>• Regularly maintain appropriate security system to prevent unauthorised access to our customers' data and personal information.</li> </ul>
	<ul style="list-style-type: none"> <li>• Eradicate customers' data and information on or before the termination of the authorization to the use of data.</li> </ul>

We continually improve our data security measures to ensure they meet the latest regulatory requirements and reflect the expectations of our stakeholders.

### Intellectual Property Protection

We respect intellectual property rights and endeavour to protect the Group from reputational damages arising from the infringement of its intellectual property. In managing intellectual property rights, we strictly comply with relevant laws and regulations such as the "Patent Law of the People's Republic of China" and "Trademark Law of the People's Republic of China" and have in place a dedicated team to monitor and avoid infringement. 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.

### Investor Relations

We adhere to the highest standard of investor relations management and strive to maintain a long-term stable relationship with shareholders and investors. Through multiple physical and virtual channels, we timely disseminate accurate and comprehensive information about the Group to investors with the aim of engaging in an effective and bidirectional communication with them. Meanwhile, we uphold an open and candid attitude to listen to the views from the capital market and relay the feedback to our senior management and Board of Directors regularly. During the year, we successfully broadened the investor base and enhanced investors' understanding and recognition of our business strategies as reflected in the soaring share price to historical high, generating attractive returns for the shareholders. The Board of Directors and senior management have shown tremendous support for the investor relations program. Together with the investor relations team, they have participated heavily in the communication with the capital market and have frequently attended investor events to maintain an open dialogue with both local and overseas investors.

### Adaptive measures to navigate through the prolonged pandemic

Physical events around the world continued to face severe disruption from the COVID-19 pandemic in 2021. Through the support of various digital platforms, we deployed alternative multichannel to maintain constant dialogue with investors when social distancing guidelines took hold while providing them with full, transparent and timely disclosure of information. For instance, the financial results announcements in March and August as well as the Group's first Investor Day in September were hosted through teleconference and live webcast. The Investor Day represented a huge step forward in our devotion to demonstrate the Group's investment value to investors, orchestrating a solid plan that leads to sustainable growth. Financial information, presentations, and webcasts were then updated and uploaded to our corporate website promptly to enable instant and easy access from any device.



Annual general meeting in May 2021

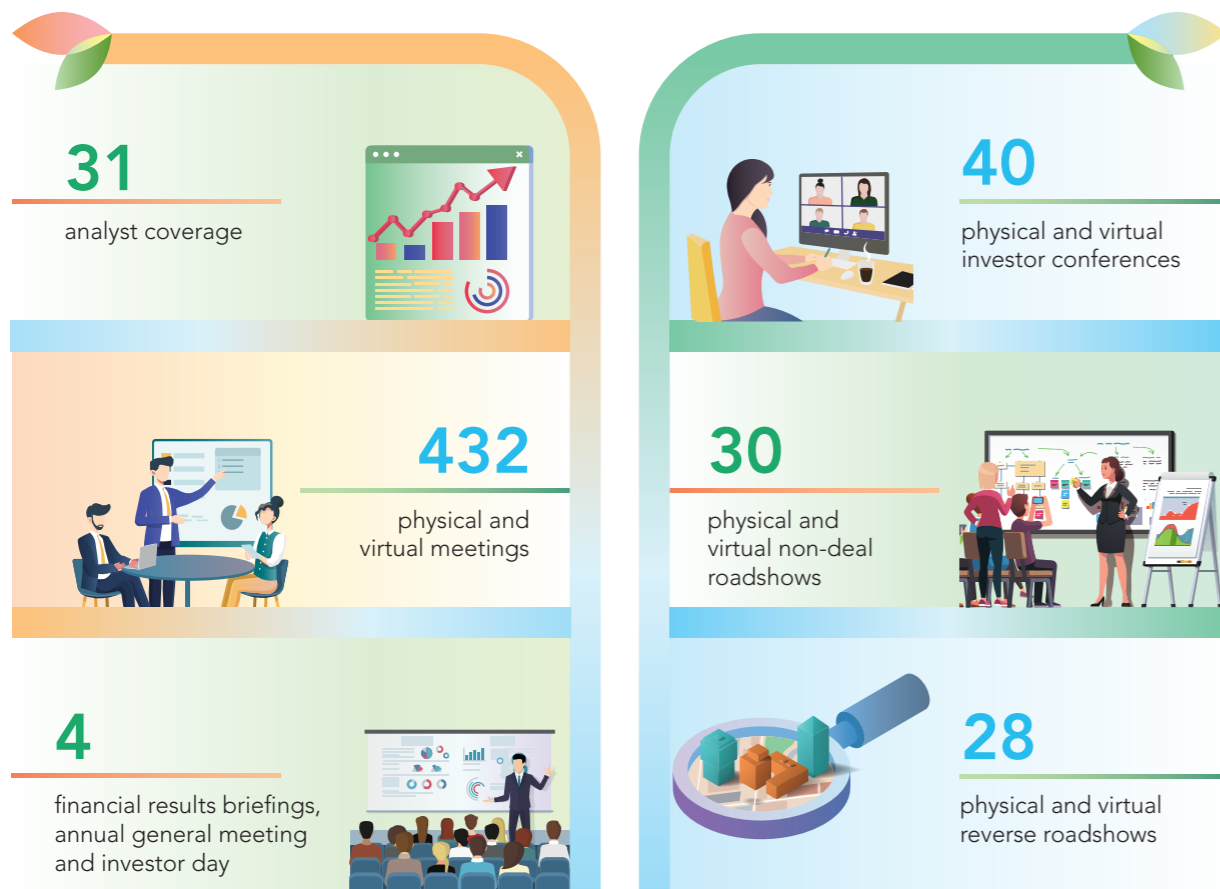


Investor Day in September 2021

## CORPORATE GOVERNANCE AT XTEP

In addition to attending virtual conferences and non-deal roadshows, we also fostered innovation in our investor relations program. A virtual reverse roadshow was held with our brokers in May via Zoom for European investors to visit Saucony's retail store and products in Shanghai, keeping foreign investors updated with the latest development of the new brand without traveling. The event received very positive feedback and we will continue to drive creativity in investor communication especially during the pandemic.

### Our close engagement with institutional investors



## CORPORATE GOVERNANCE AT XTEP

### Corporate awards and recognitions

#### IR Magazine Forum & Awards Greater China



#### IR Magazine

- Best IR Company (Consumer Discretionary Sector)
- Best Annual Report (Mid-Cap)



#### HKIRA 7<sup>th</sup> IR Awards 2021



#### Hong Kong Investor Relations Association

- Overall Best IR Company Award (Small Cap)
- Best IR by Chairman/CEO (Small Cap)
- Best IR by CFO (Small Cap)
- Best IRO (Small Cap)
- Best IR Team (Small Cap)
- Best Investor Meeting (Small Cap)
- Best Annual Report (Small Cap)



#### Hong Kong Corporate Governance and ESG Excellence Awards 2021



#### The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University

- Honorable Mention of ESG Excellence (Hang Seng Composite Index Constituent Companies)



#### China Excellent IR Annual Selection



#### RoadShow China

- Best Information Disclosure Award

#### Golden Hong Kong Stock Award 2020



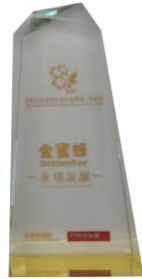
#### Zhitong Finance and Hithink RoyalFlush Finance

- Best IR Team Award

## CORPORATE GOVERNANCE AT XTEP

### GoldenBee CSR China Honor Roll 2021

GoldenBee Sustainable Product & Service Award



### China National Textile and Apparel Council

Participated in the accelerating plan for Chinese fashion brands' stewardship in tackling climate change



### China CSR Annual Forum

Green Product Award 2021



### The Economic Observer

2020-2021 Annual Case of Outstanding Brand Marketing Award



### GMTIC

Most Innovative Brand of the Year



### China National Light Industry Council

Ranked No.5 in the Top 10 Enterprises of Footwear Industry in China Light Industries



### Jinjiang City Ping An Xing Charity Foundation

The Company of Executive Vice President of The First Council



### China UnionPay Beijing Half Marathon 2021

Event Partner



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### 10-Year Sustainability Plan



We observe the mounting concern over climate change and is committed to mitigating our impact on the environment. In early 2021, the Sustainability Committee set out our "10-Year Sustainability Plan", effective from 2021 to 2030. The plan focuses on three critical topics, namely supply chain management, environmental protection and social responsibilities with 12 key themes.

As one of the largest countries in the world, China is committed to adopting green and low-carbon approaches in its economic and social development. The government has set binding targets of achieving peak carbon dioxide emission before 2030 and carbon neutrality before 2060. We have established five environmental protection targets focusing on sustainable innovation, chemical use, energy-saving and air emission, waste management and water management to support the country's commitment to transform and upgrade our business operations.

In addition, China has several national policies for peaking carbon emissions and achieving carbon neutrality, including "1+N climate policy system" and the national emissions trading scheme on the Shanghai Environmental & Energy Exchange. Together with the strong national policy support, we believe that our plan provides clear directions and goals for the Group to achieve sustainable growth and further solidify Xtep's leading position in the sportswear market.



# OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

# OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

## Focus areas and targets

Sustainability framework	Relevant sustainable development goals <sup>3</sup>	Key aspects	Theme	2030 Targets	Applicable to	Progress in 2021		
						Getting Started	Work in Progress	Achieved
<b>Supply chain management</b> 	 	<b>Supplier management</b> 	 Supplier assessment	<ul style="list-style-type: none"> <li>Enhance ESG performance assessment for new supplier admission</li> <li>Conduct supplementary performance review regularly on tier 1 suppliers</li> </ul>	The Group			✓
			 ESG capability enhancement	<ul style="list-style-type: none"> <li>Provide ESG training and advise ESG initiatives to existing suppliers</li> <li>Establish regular review mechanism to examine existing suppliers' ESG performance</li> </ul>	The Group			✓
<b>Environmental protection</b> 	    	<b>Environmental impact of products</b> 	 Sustainable product innovation	<ul style="list-style-type: none"> <li>Increase the proportion of products using environmentally friendly PLA materials</li> <li>Invest in 60 apparel products using environmentally friendly materials every year</li> <li>Increase the proportion of products using recyclable and organic materials</li> <li>Increase the proportion of products using renewable materials</li> </ul>	Core Xtep Brand			⚙️
			 Chemical use	<ul style="list-style-type: none"> <li>Increase the penetration rate of water-based glue for shoe products to 50% or more</li> <li>Obtain VOC standard for vehicle air quality</li> <li>Increase cooperation with Bluesign dyeing auxiliaries' manufacturers in garment production</li> <li>Increase the penetration rate of water-based glue for shoe products to &gt;=30%</li> </ul>	Saucony & Merrell	▶️		⚙️
			 Energy saving and air emissions	<ul style="list-style-type: none"> <li>Reduction of electricity, gas, heat, and carbon emission</li> <li>Reduce shoes production plants power consumption and corresponding carbon emissions by 20%</li> <li>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%</li> <li>Reduce office carbon emissions by 20%, reduce paper utilization rate by 20% and increase the utilization rate of testing equipment to 90%</li> </ul>	Core Xtep Brand			⚙️
			 Water management	<ul style="list-style-type: none"> <li>Reduce water consumption per unit output value of shoes production plants by 10%</li> <li>Increase the utilisation rate of water resources in apparel production plants to 50%</li> </ul>	Core Xtep Brand			⚙️
		 Waste management	<ul style="list-style-type: none"> <li>Achieve 100% harmless treatment of hazardous substances and increase the general waste recycling rate to 50% for shoes products</li> <li>Use FSC CoC certification to produce certificates and hangtags for apparel products</li> </ul>	Core Xtep Brand	▶️		⚙️	
		 Staff incentive and welfare	<ul style="list-style-type: none"> <li>Maintain turnover rate (excluding factory piecework employees) to less than 30%</li> <li>Regularly review compensation and benefits to retain the Group's competitiveness within the market</li> </ul>	The Group			⚙️	
		 Staff health and safety	<ul style="list-style-type: none"> <li>Standardize safety procedures for all business operation links</li> <li>Promote occupational health and personal safety management</li> </ul>	The Group			⚙️	
		 Training and development	<ul style="list-style-type: none"> <li>Increase the proportion of the first successor for key posts to more than 80%</li> <li>Increase the number of corporate culture lecturers to more than 30</li> <li>Develop at least three sets of evaluation tools for each talent standard module</li> </ul>	The Group			⚙️	
<b>Social responsibilities</b> 	  	<b>Employment and welfare</b> 	 Promoting sports	<ul style="list-style-type: none"> <li>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</li> <li>Promote the development of younger generation in China via various campaigns and activities</li> </ul>	Core Xtep Brand			⚙️
			 Community investment	<ul style="list-style-type: none"> <li>Donate more than RMB80 million worth of sportswear gears every year</li> <li>Establish volunteer team and organise public welfare volunteer activities at least twice a year</li> </ul>	Core Xtep Brand			⚙️

<sup>3</sup> The Sustainable 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 SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Stakeholder Management and Materiality Assessment

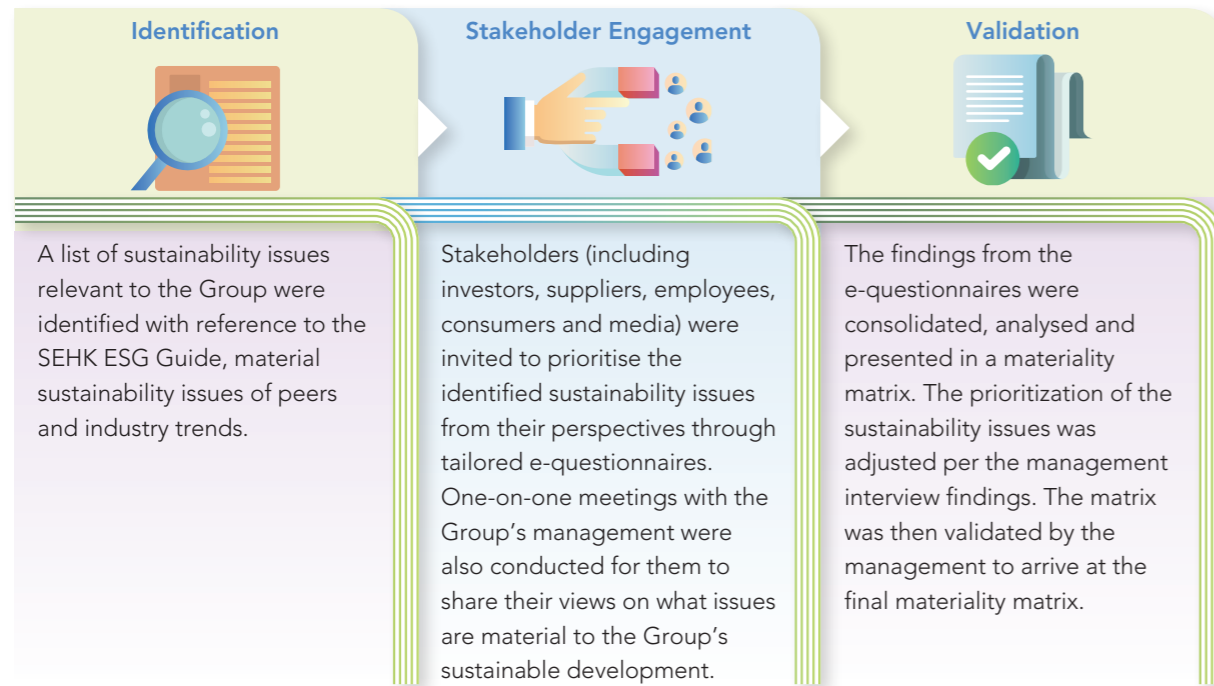
Stakeholders' expectations are crucial to the Group's efforts to define its sustainability strategy and reporting. We aim to nurture our relationships with our internal and external stakeholders to ensure we are responsive and inclusive.

We commissioned an independent consultant to conduct a stakeholder engagement exercise to identify the Group's material sustainability issues. Through this exercise, we revisited and updated our list of material issues by considering our current business operations and the expectations of different stakeholders.

#### Stakeholder engagement process



The Company has established a stakeholder engagement process, which consists of three stages, including **Identification, Stakeholder Engagement and Validation.**



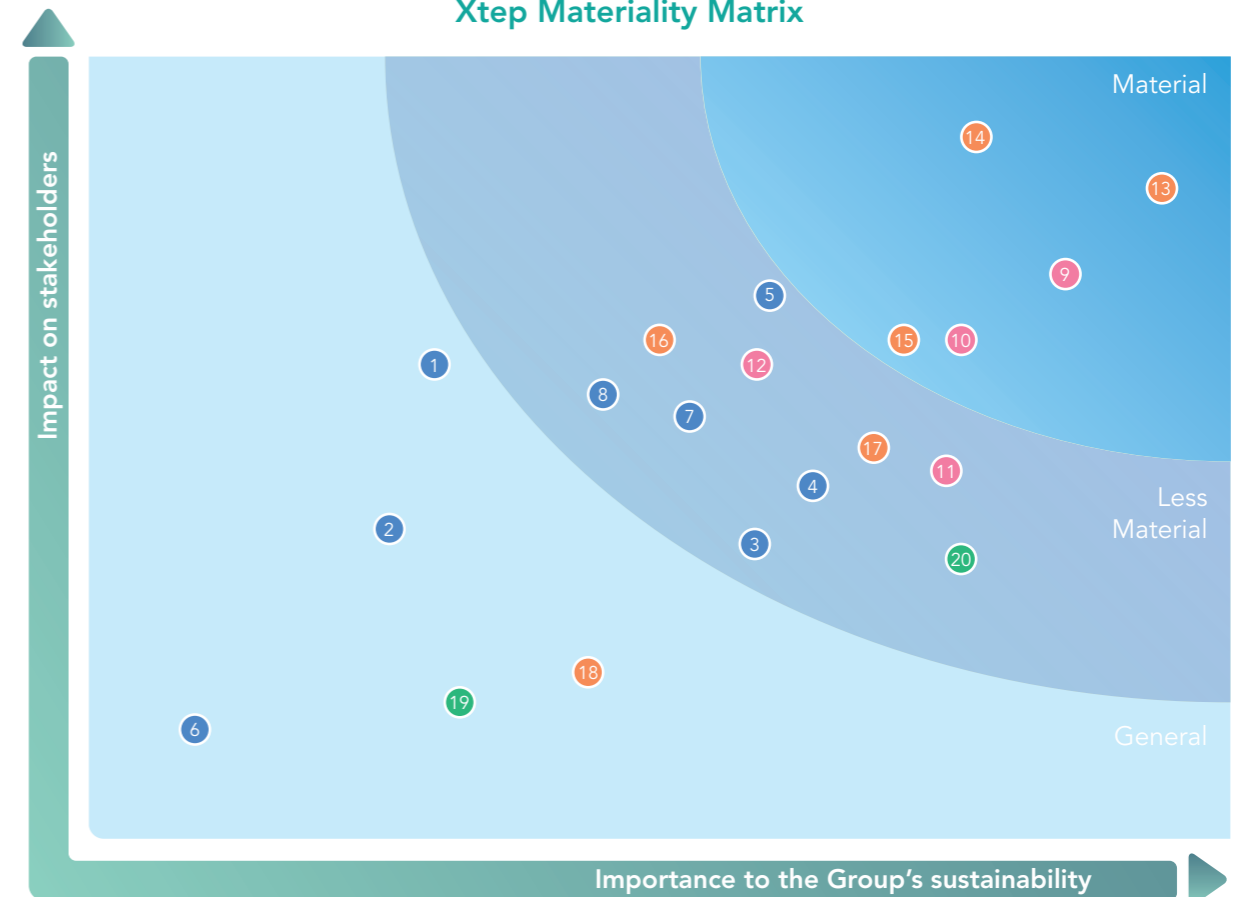
#### Materiality assessment result

The materiality assessment results identified sustainability issues that are the most important to our stakeholders, and we analyse the outcomes of the assessment for our sustainability approach, strategy and reporting.

During the year, we renewed our materiality assessment based on the input obtained from the stakeholder engagement exercise. The results reflected that social and product-related issues were comparatively of greater significance than environmental issues. Out of the 20 issues shortlisted, stakeholders are most concerned about the five issues of product quality and safety, product innovation, employment and welfare, staff training and development and supply chain management. In addition, the Group also recognises the growing concern regarding the environmental impact of the sportswear industry and intends to continuously enhance the transparency of our performance in this area.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Xtep Materiality Matrix



Environmental protection	<ol style="list-style-type: none"> <li>1. Use of energy</li> <li>2. Use of water</li> <li>3. Use of packaging material</li> <li>4. Air and wastewater emission</li> <li>5. Hazardous waste management</li> <li>6. Non-hazardous waste management</li> <li>7. Climate change</li> <li>8. Greenhouse gas emissions</li> </ol>
Employee welfare and development	<ol style="list-style-type: none"> <li>9. Employment and welfare</li> <li>10. Employee development and training</li> <li>11. Health and safety</li> <li>12. Labour rights</li> </ol>
Operating practice	<ol style="list-style-type: none"> <li>13. Product quality and safety</li> <li>14. Product green innovation</li> <li>15. Supply Chain Management</li> <li>16. Marketing and advertisement</li> <li>17. Protection of intellectual property</li> <li>18. Anti-corruption</li> </ol>
Social investment	<ol style="list-style-type: none"> <li>19. Social contribution and charity</li> <li>20. Advocating sports development</li> </ol>



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Supply Chain Management

As a leading professional sports brand with an extensive distribution network, the Group is aware of the broader influence it has and can use its purchasing power to encourage suppliers to operate more sustainably. ESG-related factors form a critical part of the Group's suppliers' assessment process and have a due weighting in our consideration of potential and existing suppliers.

We are also aware of the broader concern from our stakeholders on product quality and safety. The Group regularly monitors and evaluates our suppliers' performance and implements different initiatives to enhance and manage our product quality control to reduce the risk of large-scale recalls.

### Supplier assessment



### Our supplier portfolio

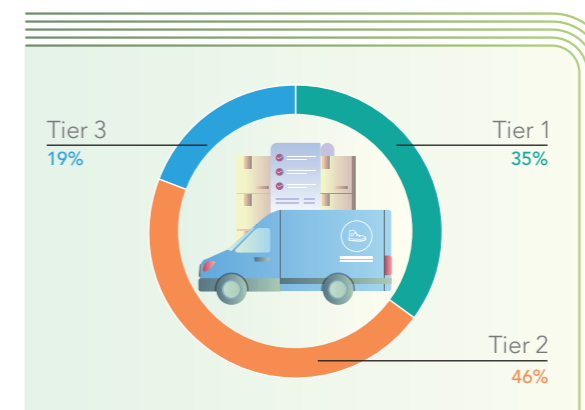
As a responsible business, we are well aware of the environmental and social impacts that may ensue along the supply chain. The Group sources raw materials and parts used in our products from different suppliers while outsourcing a large proportion of product manufacturing to different manufacturers (CFOB).

We adopt a comprehensive procurement and tendering procedure to ensure that related activities are carried out fairly and transparently. The Group's *Supplier Management Manual* underpins our commitment and serves as a guideline in managing our vast supply chain. Suppliers, business partners, and associates are encouraged to uphold standards on environmental, social, and ethical business practice issues that align with the Group's standards. Our Supplier Management Centre and dedicated teams from different brands work closely with suppliers to ensure their performance, and all suppliers must comply with the Group's *Supplier Code of Conduct* during the contracting stage.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

Regular monitoring and evaluation are carried out to assess the performance of our suppliers. In 2021, 70% of our footwear and 88% of our apparel were manufactured by our suppliers. The Group maintains relationships with 374 suppliers globally, 364 in Mainland China, and 10 overseas. The breakdown of these suppliers by nature is as follows:

### Our supplier portfolio<sup>4</sup>:



### Supplier definitions

<b>Tier 1</b>	Suppliers providing finished products and their providers of particular manufacturing processes.
<b>Tier 2</b>	Suppliers of materials (e.g. shoe uppers, soles, fabric, etc.) and their providers of special manufacturing processes.
<b>Tier 3</b>	Suppliers of accessories (e.g. zips, buttons, Velcro, etc), packaging materials, labels, raw materials (e.g. leather, down feather, yarn, etc.) and chemical testers.

<sup>4</sup> The data does not include tier 2 and tier 3 suppliers of K-Swiss, Palladium, Saucony and Merrell. It is because we directly import finished products from our business partners for K-Swiss, Palladium, Saucony and Merrell, and do not directly engage with such suppliers.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### ESG assessment for new suppliers and ongoing evaluation

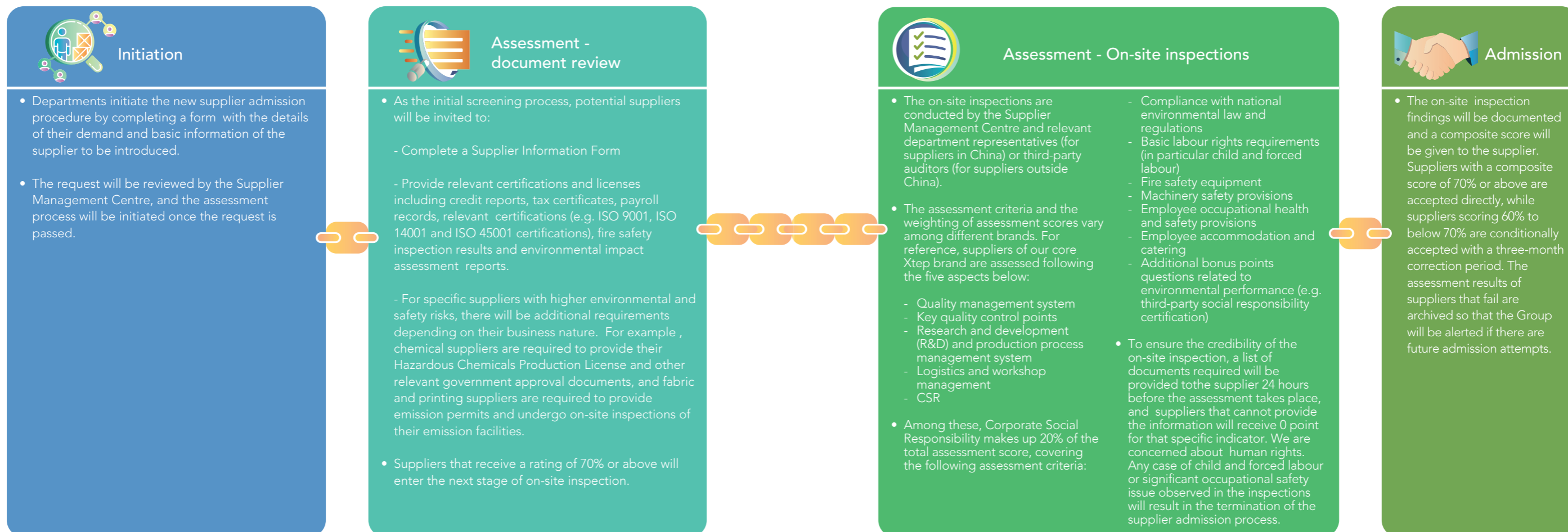
#### Upweighting ESG performance in assessment

In 2021, we enhanced and upweighted the criteria of ESG performance in the assessment process for potential and existing suppliers. The Group's Supplier Management Centre has revisited the on-site inspection section of new supplier and ongoing supplier assessment and upgraded the existing Environmental and Safety Management factors to a new set of CSR indicators as one of the criteria for evaluation.

In placing a higher emphasis on suppliers' ESG performance, we adjusted the weight of the CSR criteria to 20% of the overall supplier evaluation, which is an increase from 10% last year. The CSR section includes 68 questions focusing on seven aspects, which provides an in-depth understanding for the Group to determine whether our supplier upholds environmental and social standards that align with the Group's practice.

All new suppliers in China were assessed by our in-house team, with a few suppliers overseas evaluated by third-party auditors. Below is the summary of the new supplier admission process:

#### New supplier admission process



### Ongoing supplier evaluation

Furthermore, the Group Supplier Management Centre performed 29 ongoing assessments of its tier 1 suppliers that have collaborated with the core Xtep brand for one or more years<sup>5</sup>. The inspections successfully identified various improvement areas for the suppliers, and where applicable, re-assessments were scheduled to follow up on the supplier's implementation of the improvement suggestions. In addition, due to the impact of the COVID-19 pandemic, K-Swiss and Palladium suppliers' on-site inspection was not arranged in 2021.

The inspection team identifies potential improvement areas throughout the assessment process and provides practical improvement suggestions for suppliers to implement. There are four levels of improvement requirements depending on the score of the supplier receives:

Score	Implication
80 or above	The supplier's comprehensive performance exceeds the Group's expectations and continuous improvement is expected.
70 to below 80	The supplier's performance matches the Group's expectations and self-improvement is expected.
60 to below 70	Gaps against certain requirements are observed, and improvement plans are expected for those areas.
below 60	Major gaps against requirements are observed, and the supplier is expected to implement corrective measures within the specified time limit.

<sup>5</sup> For Saucony and Merrell, we import the final products from our business partners and relevant supplier assessments were conducted by the business partner.





## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

For case where the suppliers fail to implement adequate corrective measures, we will cease our collaboration with them and seek alternative suppliers.

In supporting the Group's sustainability plan regarding the supply chain management, we have established four targets to enhance our supplier chain ESG performance and management. Please refer to the focus areas and targets listed in the 10-Year Sustainability Plan in "Our Sustainability Framework and Strategies" section for details.

### Engaging suppliers and build up ESG capabilities

To identify and minimise the social and environmental risks along its supply chain, the Group actively communicates with our suppliers to help improve their sustainability practice and performance.

We are planning different training series and have engaged with tier 1 suppliers in China and conducted seminars on ESG introduction to share the Group's ESG requirement and the basic concept of ESG, including the topics of ethical business practice and environmental management. Open discussions with suppliers are initiated during those seminars to address the difficulties and exchange ideas on improving the overall ESG performance of the supply chain.



ESG introduction training for tier 1 suppliers



### Product and material quality assurance

The Group is rigorously managing the quality specifications and quality assurance in our production processes. In order to meet our customers' requirements on product quality, our products are subject to stringent quality control tests during the production process to ensure that the items meet the Group's quality requirements. The Group's quality control teams handle the quality control process to perform relevant sample testing and inspection to enhance supplier quality control.



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Product quality control process and procedures

As an ISO 9001-certified company, the quality management system of the core Xtep brand ensures products consistently meet regulatory requirements and customer expectations. At the research and development stage, the Standard teams perform thorough tests and verification of the product and the materials used and formulate standards for mass production. During the year, the standard teams formulated and reviewed different quality management-related documents to enhance the quality management system. 28 documents were shared onto the Xtep Quality Information Sharing Platform to improve the standardisation of the product quality management between the Group and its suppliers. In addition, we have conducted trainings on quality management and procedures with more than 400 participants to improve our quality control process and procedures.

At the production stage, the quality management teams perform regular quality control activities during the in-house production process and regularly inspect the product quality of our suppliers to ensure that the finished products pass physical and chemical standards before being delivered to the customers. In addition, Xtep conducted monthly sample testing for its tier 1 and tier 2 suppliers. Every quarter, the raw materials and finished productions will be sent to nationally certified third-party laboratories for testing to ensure product quality and safety.

The Group also performs a strict quality control process for other brands where the production process is entirely outsourced. In general, quality tests are performed by our quality management teams either upon arrival at our Quanzhou Logistics Centre or directly on-site at the supplier factories. To improve the product quality and the production process, K-Swiss and Palladium, in particular, have their manufacturing machineries upgraded during the year.

### Enhancing product quality control with suppliers and customers

In order to have better and close monitoring of supplier performance on product quality, the Group actively assists our suppliers in building their quality control and management capabilities. In 2021, Xtep organised monthly meetings with its suppliers to share the latest market trend and practices in product quality control and conducted regular interviews with customers to understand their needs for product quality improvement of our supply chain.

### After-sales quality management

The Group has provided various channels for our customers to make a complaint or request information and established clear internal policies on handling customer complaints and product defects. Any customer complaint received at our retail points, through the "400 Hotline" or other communication channels, will be addressed in a timely and proper manner by our customer service team. For example, we provided one-to-one assistance to shoppers in our retail shops to promptly deal with customer inquiries and complaints. In 2021, the "400 Hotline" received approximately 907 product and service-related complaints, a decrease of 22.6% compared to 2020.

To improve customer satisfaction, the notice on The Return and Exchange Policy for Customers was implemented on April 15, 2021, which stipulates that all products that consumers want to return after wearing will be accepted unconditionally. The Group also has policies for handling products recalled due to quality issues or other reasons. The Quality Management Centre will comprehensively investigate any major product recall, and they will submit the investigation results to senior management and relevant departments. Responsible departments will implement appropriate corrective measures to mitigate the defects identified and prevent future incidents from occurring. In 2021, there was no major product recalls due to health or safety reasons.





## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Environmental Protection

As environmental regulations become increasingly stringent, it is vital for the Group to actively explore the wider use of innovative alternative materials and sustainable innovations to integrate environmental sustainability into our production and operations. Failure to keep up with low-carbon transition may negatively impact the Group's financial returns and damage our reputation. The Group monitors the impacts of its day-to-day operations with the ISO 14001-certified Environmental and Occupational Health and Safety Management System. This system allows us to effectively utilise resources and improve the environmental management practices at our production sites.

### Green product innovations

#### Green materials and sustainable design along the value chain



There are three main areas in the cycle of sportswear products where efforts can be made to reduce environmental impact. These areas include the raw material selection, the production process, and the disposal of the product at the end of its life. At Xtep, we have been investing extensive effort in developing and adopting more environmentally friendly materials to minimise the environmental impact of our products throughout their cycles.

We are committed to steadily increasing the use of environmentally friendly materials in our production. Cotton is one of the most commonly used crops in the textile industry and is also the main natural fibre used in our apparel products. As a natural material, its cultivation is associated with different environmental and social impacts. The production and processing of cotton requires a large amount of water, and the pesticides and fertilizers used in the process can pollute the soil and water in the nearby environment. The heavy use of these chemicals also raises concerns regarding the health of farm workers and nearby populations.



To lessen the environmental impact in our production, we are currently focusing on using organic cotton, recyclable plant-based materials, and biodegradable materials as the main green material for our apparel and footwear product production.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

Below are examples of green materials and their applications:



### Organic cotton and recycled cotton yard products

We have expanded our line of organic cotton and recycled cotton yard products. During the year, we have launched several apparel products made of organic cotton and recycled cotton yarn.



### Recycled materials

There has been a growing movement in the industry to utilise recycled materials for producing fabrics and other materials for apparel and footwear products. The use of recycled materials can save plastics and other non-biodegradable materials from being sent to landfills, while bringing potential energy savings to the production process.

In 2021, we launched footwear products for Xtep, Saucony and Palladium with shoe insoles foam and bottom lining made from ECO Ortholite, recycled plastic bottles, and recycled metal accessories. Saucony launched the Jazz Court RFG made of 100% natural materials, and Palladium launched its apparel and footwear products such as Pampa Earth Collection Series and Organic Collection, which utilises organic materials aligned with Global Recycled Standards, Global Organic Textile Standards, and OEKO-TEX Standard 100 guidelines.



We continue to explore the possibility of utilising more recycled materials in our footwear products. By 2022, we expect to introduce more product components that are manufactured with a high proportion of recycled materials in selected product lines. They include insoles, synthetic leather uppers and cotton uppers.



### Biodegradable materials

In 2021, Xtep launched a new environmentally friendly PLA T-shirt. PLA is a biodegradable material fermented and extracted from corn, straw, and other crops containing starch. The apparel product made of PLA being buried in the soil in a specific environment can be naturally degraded within one year.



Xtep launched its first PLA products since 2020 and has advanced the use of biodegradable materials in its products ever since. We increased PLA content in our T-shirts from 19% to 60% in 2021; and further raised the PLA content in our T-shirts launched in the second quarter of 2022 to 76%. Meanwhile, the trial production of the 100% PLA windbreaker is expected to kick off in the third quarter of 2022.



### Other materials

We are developing eco-friendly products that use other materials to reduce our environmental impact. These materials include Tyvek®, a 100% recyclable slice-like material made of high-density polyethylene ("HDPE") fibres and combining the performance of paper and fabrics such as lightweight, waterproof and agile.

In supporting the Group's Sustainability Plan focusing on product sustainable innovation, we have established four targets to increase the amount of product manufactured with a high proportion of recycled materials in selected product lines. Please refer to the focus areas and targets listed in the 10-Year Sustainability Plan in "Our Sustainability Framework and Strategies" section for details.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Use of chemicals

The Group is committed to ensuring our product safety and proactively researching alternatives to chemicals of concern, at the same time ensuring that the performance and quality of our products will not be compromised. We fully comply with our internal standards and the national use of chemicals standards in all our operations.

In supporting the Group's sustainability plan focusing on chemical use, we have established four targets to increase the amount of product manufactured toward a toxic-free environment in selected product lines. Please refer to the focus areas and targets listed in the 10-Year Sustainability Plan in "Our Sustainability Framework and Strategies" section for details.



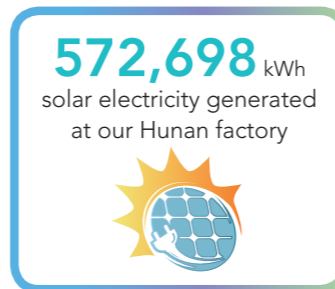
### Reducing footprint along the operations

#### Energy efficiency and carbon reduction

As a leading running shoe brand in the industry, we are committed to reducing our carbon emissions and other air pollutants and support the move to a low-carbon future through environmentally friendly energy sources. We are working on the following initiatives to improve energy efficiency in our operations.

At the Group's production facilities, we continuously adjusted and upgraded the lighting controls and manufacturing equipment at our production facilities for energy saving. During the year, we have invested more than RMB3 million in replacing and upgrading our manufacturing equipment with more energy-efficient models in our headquarters and production site operations.

In addition, we also made efforts to adopt cleaner energy sources. All boilers at our production sites are currently running on natural gas, improving energy efficiency and reducing air pollution and greenhouse gas emissions. The Group also conducts regular maintenance for the boiler to reduce any potential waste of resources due to equipment aging or failure. We also trailed renewable energy at our Hunan factory by installing solar panels. The solar panel system helped reduce our use of grid electricity and even generated excessive renewable electricity at times that could be sold back to the grid.

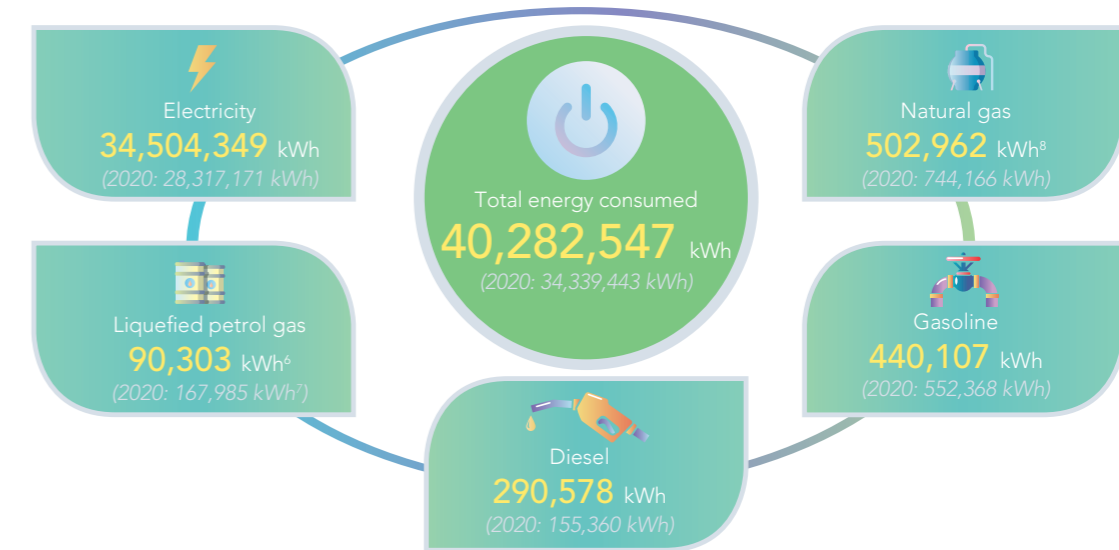


We continuously promote energy conservation at our retail stores, factories, and headquarters by posting energy-saving guidance and internal communication materials such as posters to increase our employees' awareness in energy conservation. In addition, the Group regularly monitors electricity consumption at all of our operations to promptly identify abnormalities.

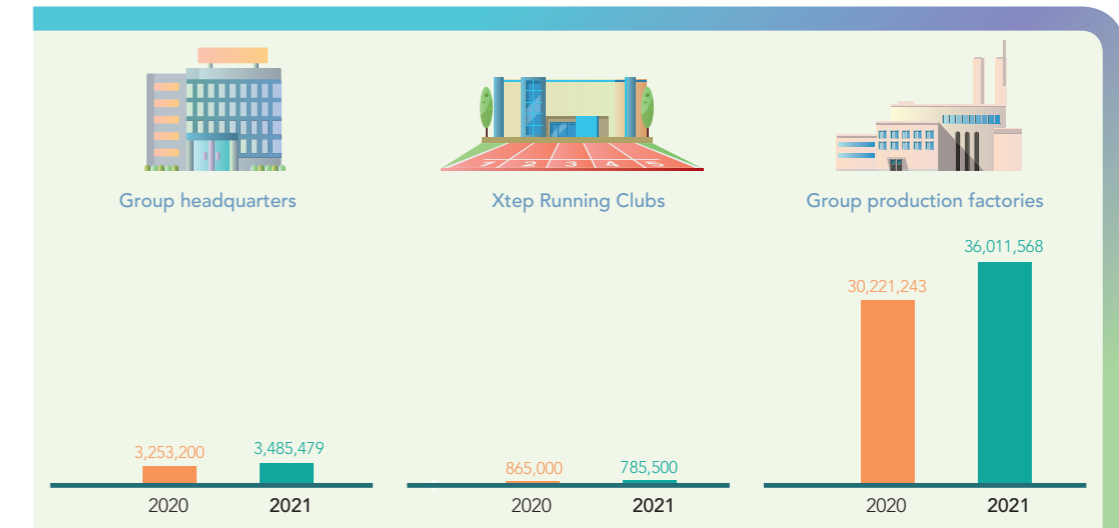
In supporting the Group's sustainability plan focusing on energy saving and air emissions, we have established four targets on responsible energy use to improve the environmental footprints at our production sites. Please refer to the focus areas and targets listed in the 10-Year Sustainability Plan in "Our Sustainability Framework and Strategies" section for details.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

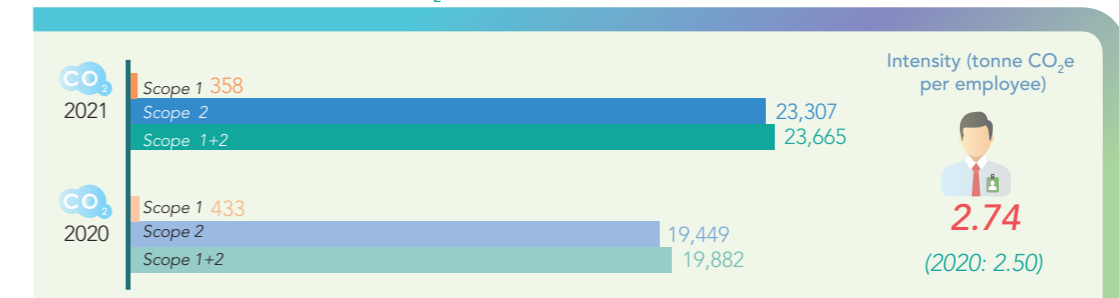
### Energy consumption in 2021 (kWh)



### Total energy consumption by location (kWh)



### Carbon emissions in 2021 (tonne CO<sub>2</sub>e)



6 The total amount of liquefied petrol gas consumption in 2021 decreased by 46% compared with 2020. This is mainly due to the switch from consuming liquefied petroleum gas to electricity at some of our canteens.  
7 The 2020 data has been restated in line with update on the liquefied petrol gas consumption data in 2021.  
8 The total amount of natural gas consumption in 2021 decreased by 32% compared with 2020. This is mainly due to the closure of one of our canteens.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

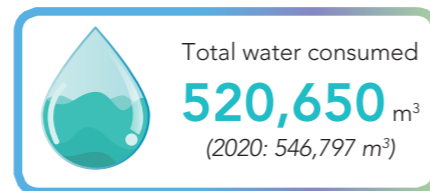


### Water management

The majority of the Group's water consumption occurs during the production process and its dormitories. We have adopted water-efficient appliances in our factories and dormitories and put several measures to improve water efficiency at our factories and dormitories, including process improvements and water recycling and reuse measures.

In 2021, we continuously 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 reduced the water flowrate and subsequent consumption. We will continue to upgrade the flushing control system at our employee dormitories to improve water efficiency in the coming years.

In supporting the Group's sustainability plan focusing on water management, we have established two targets to address and improve water efficiency in our production. Please refer to the focus areas and targets listed in the 10-Year Sustainability Plan in "Our Sustainability Framework and Strategies" section for details.



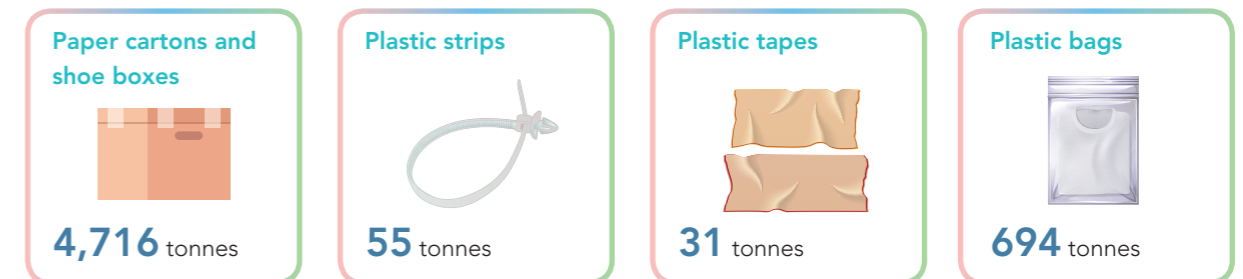
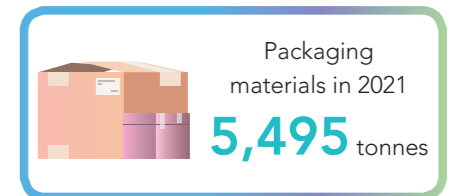
### Water consumption by location (m<sup>3</sup>)



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Packaging materials and waste management

The Group has introduced sustainable packaging into our products to lessen the environmental impact since 2020. We have replaced the tags and quality certificates of the Xtep brand's apparel and accessory products. We also provided shoe boxes with handles for our customers to reduce the use of plastic bags in 2021.



The most common hazardous wastes we produce during manufacturing are used industrial glues and their containers. We source all glues from qualified international suppliers, and all glues have passed relevant environmental testing for hazardous chemicals and odour. For the limited hazardous waste generated, we appoint qualified third-party companies to properly handle and dispose of the waste to ensure that local laws and regulations on hazardous waste disposal are followed. The Group is extremely careful about managing our hazardous waste. We have set a goal of "zero chemical and explosion incidents" and are fully compliant with regulations in hazardous waste disposal.

As many of our workers live in the dormitories, a considerable amount of domestic waste is generated each day. In managing general waste, we uphold the principles of reducing, reusing, and recycling throughout the different functions of the Group. All recyclable waste is categorized and recycled centrally. Other general waste from our operations is properly disposed of in accordance with local requirements. External contractors are appointed to handle and dispose of general non-recyclable waste properly.

In supporting the Group's sustainability plan focusing on waste management, we have established two targets to minimise waste production and achieve 100% harmless treatment of hazardous substances.

### Air emissions and wastewater discharge

The Group adheres to the "6S management system" and requires all our employees to conserve the use of electricity and water. A certain amount of air pollutants is emitted from the boilers and other equipment in our production process. To reduce such air emissions, we have switched from using diesel for powering our boilers to natural gas, resulting in less air pollution and greenhouse gas emissions and improved energy efficiency. Before being emitted into the atmosphere, the exhaust gas from our production process is treated by activated carbon filters and ultraviolet ("UV") photocatalysis to remove and decompose pollutants safely before emission.



Our wastewater discharge is not subject to any specific requirements from the government as the wastewater is mainly domestic with insignificant levels of chemicals. We discharge such wastewater into the municipal wastewater network in compliance with local requirements in all our operations.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Social Responsibilities

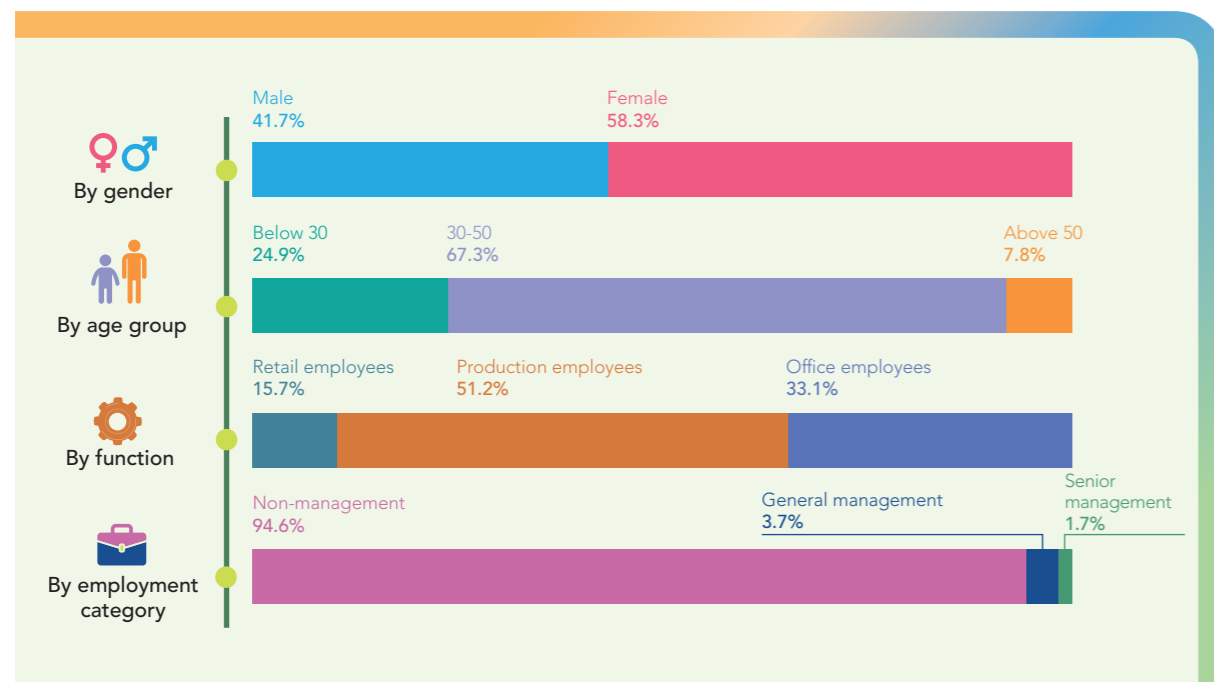
#### Nurturing employees

The Group believes that attracting and retaining talent is the key to our business development. We abide by relevant laws and regulations throughout the recruitment and employment process, including the "Labor Law of the People's Republic of China" and the "Labor Contract Law of the People's Republic of China." We also support diversity and are committed to promoting equal employment opportunities in relation to personnel matters, including recruitment, training, promotion opportunities, benefits, transfer, and dismissal. We ensure that our employees are not discriminated against or harassed due to their gender, age, ethnicity, nationality, marital status, or religion.

We strive to contribute to the community development in which we operate. As part of our community effort, we have participated in various charitable involvement, including cash donations and community services to show the Group's care to the community during the year.

#### Staff portfolio

We believe the development and retention of talent are the foundation for the Group's long-term growth and success. During the year, we have approximately 8,500 employees, and the breakdown is shown as below:



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

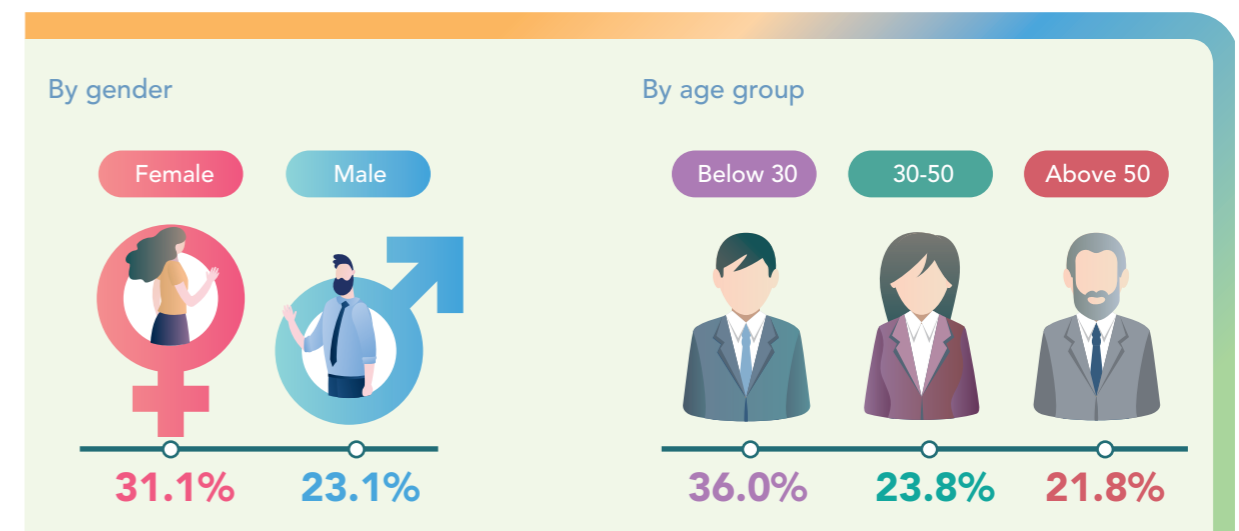
### Talent retention

The Group implements a fair and competitive remuneration and welfare system. Remuneration is determined based on qualifications, experience, nature of the work, performance, and market conditions to provide equal employment opportunities. To retain and motivate talent, we provide competitive remuneration to our employees that is considerably higher than the minimum wage level.

We also established a comprehensive Performance Management System to review employee performance and inform promotion and wage adjustment decisions. Under the system, employees discuss their work performance with their supervisors regularly. The Human Resources department will document the appraisal results to determine whether the employee is eligible for promotion or wage level review.

In 2021, we established a Staff Position Management System to attribute each position, including grade, title, and job description clearly, to best achieve the efficiency of operations and enhance employee utilisation. We have also evaluated and revised our recruitment management system and improved the internal transfer procedures to optimise retention and improve recruitment efficiency.

### Employee turnover in 2021



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Child and forced labour

We seek to create an ideal work environment where labour rights and standards are upheld. The Group's Staff Handbook covers topics such as compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, preventing child and forced labour, and other benefits and welfare issues. In addition, it promotes a fair and transparent career platform to ensure employees are not discriminated against at work in any way due to gender, age, ethnicity, nationality, marital status, religion, etc.

The Group abides by relevant laws and regulations to prohibit the employment of child and forced labour in all of its operations. We perform stringent checking and control procedures in the selection and on-boarding processes to ensure no underage labour is hired. Regular reviews on our employment practice are also conducted to ensure we operate fairly. We were not aware of any material non-compliance with law and regulations regarding labour standards during the reporting period.



Furthermore, we have stepped up our efforts to foster a work environment focused on equality and inclusion in all of our supply chains. The Group assesses the basic labour rights requirements and employees' accommodation and catering during the potential and existing supplier evaluation to protect employees' legitimate rights and interests. In 2021, we did not observe any incident of child or forced labour during our supply chain evaluation exercises.

### Labour health and safety

Ensuring employees' health and safety in the workplace is our responsibility. To build a safe and caring workplace, we have implemented the OHSAS 18001 and ISO 14001-certified management systems to manage and reduce our employees' occupational health and safety risks. In line with standards and relevant laws and regulations, we have also put detailed operating procedures, working guidelines, and manuals to provide necessary guidance on safety procedures and processes at work.

We are committed to providing a safe and secure working environment free from health and safety hazards for our employees. To eliminate occupational risks for our employees, we have set up targets, standard procedures, and emergency response plans for identified risks to eliminate potential safety hazards in time. In addition, we regularly review the operations of our Environment and Occupational Health and Safety Management System to assess the effectiveness of the preventive measures and whether corrective measures are being properly executed.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES



To ensure the safety of our working environment, we have established an Occupational Health and Safety Committee to closely monitor and report the Group's health and safety performance during the year. A professional health and safety officer is present at each shift to inspect whether frontline workers follow safety procedures in the manufacturing process. As a routine reminder, all workers receive a safety briefing before the start of each shift, followed by a summary session after the shift to sum up any safety issues observed during the shift. The safety briefing allows employees to understand the potential risks of their work, raises their safety awareness, and prevents accidents.

To provide comprehensive protection for our employees, we offer free annual health check-ups and periodically conduct different emergency drills to improve our employees' health and safety awareness. We have renewed and upgraded fire safety equipment and machinery in our operations during the year to maintain a safe working environment.

We are not aware of any non-compliance with laws and regulations in 2021 that had a significant impact on the Group with respect to occupational health and safety. Among the 48 injuries that occurred during the year, there were some minor workplace injuries and commuting accidents that occurred on business trips. All cases were reported to the local authorities for occupational injury assessment and follow-up actions.

### Occupational health and safety performance<sup>9</sup> in 2021



<sup>9</sup> 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.

## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

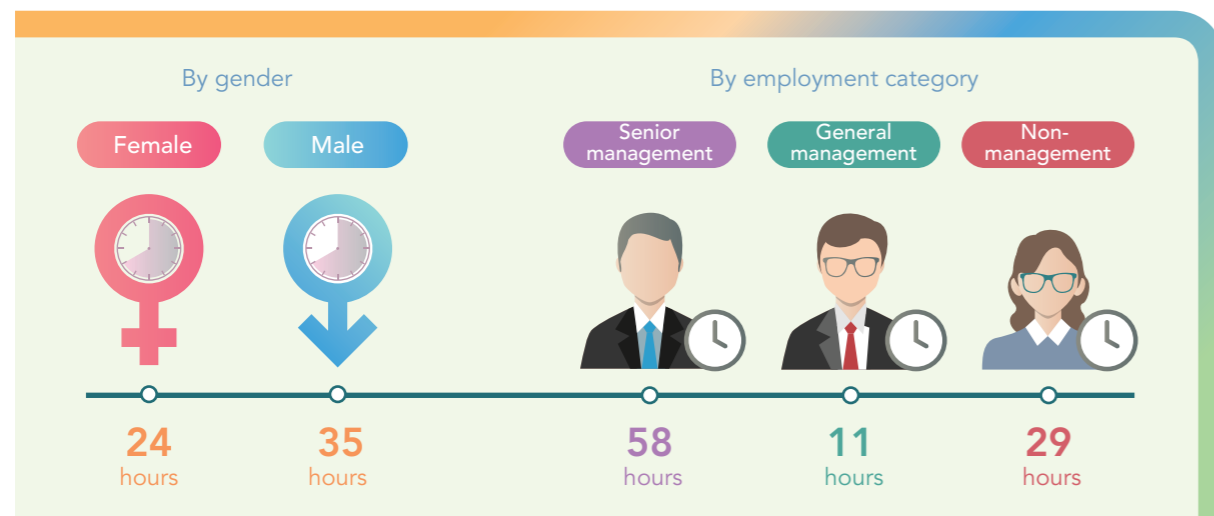
### Training and development

The Group is striving to become an outstanding employer who pays attention to the development and growth of our employees. We invested heavily in training and built a diversified career development platform for our employees to fully unleash their potential.

### Overall trainings for the Group in 2021



### Average training hours by function in 2021



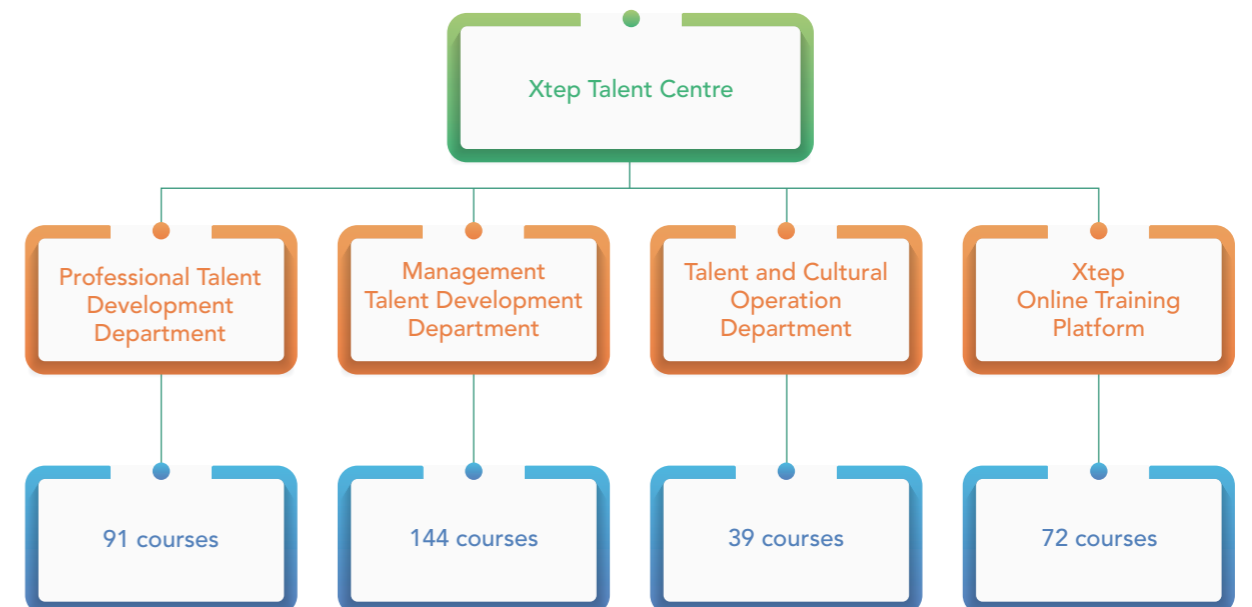
## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Xtep Talent Centre

We continued to explore our employees' needs for training and equip our staff with the skills they need to meet the demands of their current role through the Xtep Talent Centre (previously named Xtep University). It comprises three departments and one online training platform, building our staff capability to develop into management talent and professionals.



The structure of the Talent Development Centre and number of courses in each faculty is as below:



Departments	Purpose of the Department
<b>Professional Talent Development Department</b> 	According to the competency model of each position and the career development path of employees, devise a learning map for each employee and provide technical and human resources support for the training system, mainly covering the Group's professional staff.
<b>Management Talent Development Department</b> 	Carry out planning and formulate leadership development strategies for various levels and types of talent, organise and coordinate internal resources, design and run various leadership development programs, mainly covering the Group's management.
<b>Talent and Cultural Operation Department</b> 	Respond to the Group's strategic needs, improve organisational performance and develop comprehensive talents who embrace Xtep's values, mainly covering the Group's new joiners and management trainees.



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

### Leisure and welfare

To reinforce our employees' sense of belonging, we have introduced a welfare system that provides additional benefits alongside their standard benefits packages, including social insurance, paid holidays, and free medical check-ups. We also provide corporate subsidies such as daily meals, transportation subsidies, and accommodation subsidies.

We seek to protect the well-being of our staff by encouraging a healthy work-life balance. A wide range of open spaces for recreational and leisure activities for different staff interest groups are organised to encourage a work-life balance culture within the Group.

#### Employee birthday parties and holidays



We organise various events to celebrate special holidays such as International Women's day, Labour Day, Mother's Day, Father's Day, Teachers' Day, etc. We also send out birthday gifts to our employees to deliver love and care and strengthen the link between employees and the Company.



#### Senior management service day



On specific days, our management prepares and serves a variety of meals for our staff as encouragement, allowing management to interact with employees of different levels.



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

#### Clubs in workplace



A wide range of activities, including a total of 120 sports leagues (e.g., basketball, football, badminton, table tennis), have carried out and attracted over 1,000 participants.



#### Corporate culture



We have launched the "Xtep Appreciation Card" project, which allows managers to praise the excellent behaviours of employees; "Me & my Xtep" event is organised for employees to strengthen their sense of belonging to the Group.



#### Running culture



We continue to organise and carry out 321 running festivals and other national joint running activities during the year. In addition, we have established a center-based employee running group and arranged running activities regularly to promote a healthy work-life balance culture within the Group.







## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES

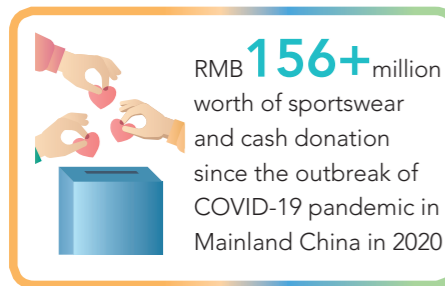
### Contributing to the society

Building our running ecosystem



The Group strives to bring strong positive energy to the community. Over the years, we built up and continued to strengthen our running ecosystem by investing in running product innovations and through a marketing strategy that consisted of marathon and running event sponsorships and sports celebrity endorsements to promote a healthier lifestyle.

### Donation and charity events



We actively invest in community programmes that benefit different social segments. As a corporate citizen who is committed to social responsibility, we seek to effect change by investing in initiatives that contribute to a better community. We continuously engage with communities, collaborate with local charitable organisations, and encourage our staff to participate in volunteer activities to achieve these goals. In light of COVID-19 outbreak in the country since 2020, we have donated over RMB156 million worth of sportswear and cash to the community and schools to support their fight against the pandemic.



## OUR SUSTAINABILITY FRAMEWORK AND STRATEGIES



### Xtep Running Clubs

Echoing the rising health awareness, increase in the standard of living, and the growing popularity of running in Mainland China, we accelerated the openings of our XRC during the year. One-stop professional running services, including running a consultation, running group support, mobile device charging, bag storage, and shower facilities, are serviceable to strengthen Xtep's running ecosystem further and make running more accessible for all. In addition, XRC enables us to perform targeted selling of our products and gain valuable feedback from our customers.

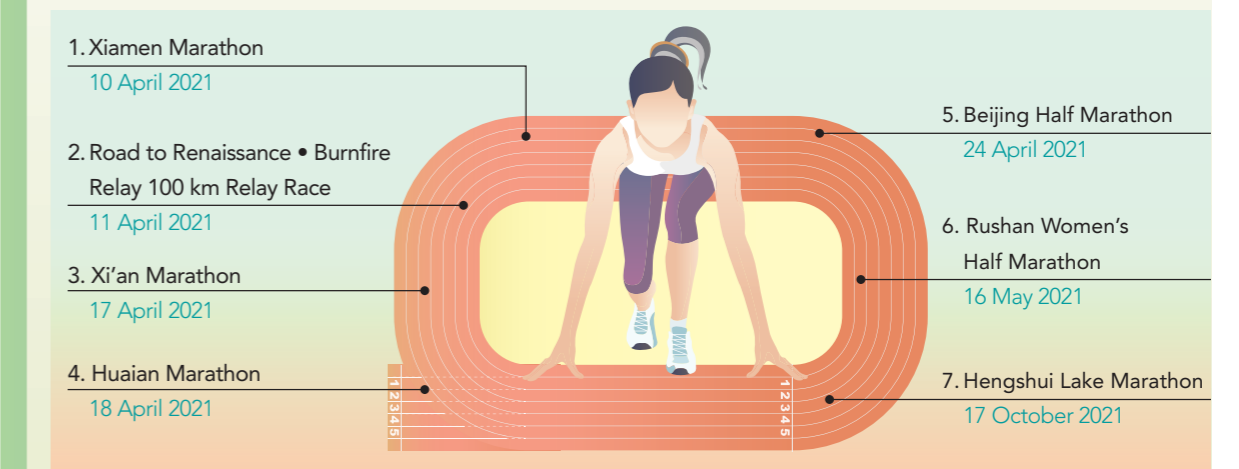


### Marathon sponsorships

Marathon events around the world faced severe disruptions from the COVID-19 pandemic. Although restrictions on outdoor recreation were in place in the second half of 2021 due to the pandemic, it did not hinder our determination to sponsor large-scale marathons and races and promote public health in the first half of 2021. We sponsored seven physical marathons and races in Mainland China<sup>10</sup> that attracted over 91,000 participants during the year.



### Marathons and running events sponsored by Xtep in 2021:



<sup>10</sup> 17 Marathon events were cancelled or postponed due to the COVID-19 pandemic in 2021.

Xtep expanded its partnership with the China Next Generation Education Foundation and entered the Gansu Province during the Year

We have been working closely with the China Next Generation Education Foundation to donate sportswear to students at Shandong, Sichuan, Guizhou, Yunnan, Inner Mongolia, Ningxia, and Qinghai provinces in the past years.

In 2021, we maintained our partnership with the Foundation and entered the Gansu Province for the first time. We donated sportswear worth around RMB4 million to students in underdeveloped areas in the Gansu Province to promote healthy growth and development.

In the future, we will seek to improve the quality of our charitable activities, adopt new formats, and enrich the content of our activities to allow young people living in poverty to experience sports and enjoy sports.



Xtep's Chairman Mr. Ding Shui Po, appointed as the Consultant for Quanzhou No.5 Middle School Tongxin Education Foundation

In June 2021, Xtep's Chairman, Mr. Ding Shui Po, was appointed as the First Term of Consultant for Quanzhou No.5 Middle School Tongxin Education Foundation.

The foundation's purpose is to support the upbringing of children and adolescents by providing education support to combat poverty. In addition, Xtep's Chairman, Mr. Ding Shui Po, donated RMB1 million to support the development of the foundation.



Providing support to victims in Henan and Shanxi Floods

In 2021, devastating floods swept through the Chinese provinces of Henan and Shanxi. Xtep donated clothing and shoe products worth more than RMB55 million through the China Foundation of Poverty Alleviation and China Soong Ching Ling Foundation to the provinces of Henan and Shanxi.



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.	Corporate governance	
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	

Subject areas, aspects, general disclosures and KPIs		Section	Remarks
<b>A. Environmental</b>			
<b>Aspect A1: Emissions</b>			
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	Green product innovations  Reducing footprint along the operations	
KPI A1.1	The types of emissions and respective emissions data	Reducing footprint along the operations	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	Energy efficiency and carbon reduction	
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	–	
KPI A1.5	Description of emission target(s) set and steps taken to achieve them	Reducing footprint along the operations	
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 materials and waste management	

Subject areas, aspects, general disclosures and KPIs		Section	Remarks
<b>Aspect A2: Use of resources</b>			
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Reducing footprint along the operations	
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Reducing footprint along the operations	
KPI A2.2	Water consumption in total and intensity	Reducing footprint along the operations	
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	Reducing footprint along the operations  Our sustainability framework and strategies	
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	Reducing footprint along the operations  Our sustainability framework and strategies	
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Reducing footprint along the operations	
<b>Aspect A3: The environment and natural resources</b>			
General disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	Green product innovations  Reducing footprint along the operations	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them	Green product innovations  Reducing footprint along the operations  Our sustainability framework and strategies	

Subject areas, aspects, general disclosures and KPIs		Section	Remarks
<b>Aspect A4: Climate change</b>			
General disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer	Risk management & 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	Risk management & internal control	
<b>B. Social</b>			
<b>Aspect B1: Employment</b>			
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	Nurturing employees	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Staff portfolio	
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Talent retention	
<b>Aspect B2: Health and safety</b>			
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	Labour health and safety	
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year	Labour health and safety	
KPI B2.2	Lost days due to work injury	Labour health and safety	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Labour health and safety	

Subject areas, aspects, general disclosures and KPIs		Section	Remarks
<b>Aspect B3: Development and training</b>			
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Training and development	
KPI B3.1	The percentage of employees trained by gender and employee category	Training and development	
KPI B3.2	The average training hours completed per employee by gender and employee category	Training and development	
<b>Aspect B4: Labour standards</b>			
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	Child and forced labour	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Child and forced labour	
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Child and forced labour	
<b>Aspect B5: Supply chain management</b>			
General disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management	
KPI B5.1	Number of suppliers by geographical region	Our Supplier portfolio	
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	Supply Chain 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	Supply Chain 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	Supply Chain Management	

Subject areas, aspects, general disclosures and KPIs	Section	Remarks
<b>Aspect B6: Product responsibility</b>		
General disclosure	Policies and compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Data security and customer privacy protection Intellectual property protection 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	Intellectual property protection
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	Data security and customer privacy protection

Subject areas, aspects, general disclosures and KPIs	Section	Remarks
<b>Aspect B7: Anti-corruption</b>		
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	Anti-corruption and whistleblowing policy
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	Anti-corruption and whistleblowing policy
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	Anti-corruption and whistleblowing policy
KPI B7.3	Description of anti-corruption training provided to directors and staff	Anti-corruption and whistleblowing policy
<b>Aspect B8: Community investment</b>		
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 to the society
KPI B8.1	Focus areas of contribution	Contributing to the society
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Contributing to the society



## 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 27 of Hong Kong Stock Exchange Listing Rules and Guidance: Environmental, Social, and Governance 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 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
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
OHSAS 18001	International Occupational Health and Safety Standard issued by The British Standards Institution
PRC or Mainland China	The People's Republic of China excluding, for the purpose of this ESG report, Hong Kong, Macau and Taiwan
Report	2021 Environmental, Social and Governance Report of the Group
RMB	Renminbi, the lawful currency of the PRC
Year	The year ended 31 December 2021

