



# XTEP INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

SEHK stock code: 1368



# 2020

ENVIRONMENTAL, SOCIAL  
AND GOVERNANCE REPORT



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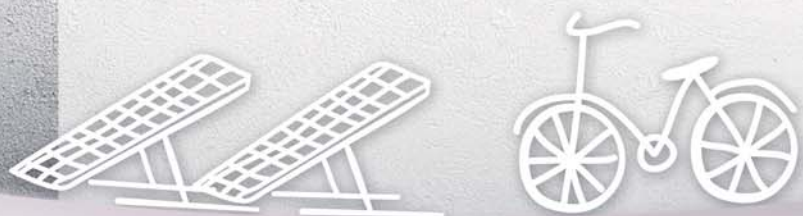
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# ABOUT XTEP

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 in 2001, the Group's signature brand "Xtep" is a leading professional sports brand with an extensive distribution network of over 6,000 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

## Our brands

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Established in 2001, Xtep is a leading professional sportswear brand with an extensive distribution network of over 6,000 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. As "Chinese runners' favorite brand", Xtep ranks 1st among the domestic brands in international class marathons held in Mainland China.



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.



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



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






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



Our worldwide retail and distribution network



					
<b>Americas</b>	<b>Europe</b>	<b>Africa</b>	<b>Middle East</b>	<b>China</b>	<b>Asia Pacific (ex-China)</b>
				 	



# ABOUT THIS REPORT

Xtep International Holdings Limited (hereinafter “Xtep” or the “Group”) recognizes the impact of its operations on the environment and society at large, and endeavors 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 2020, in particular the Management Discussion and Analysis section and Corporate Governance Report contained therein.

## Reporting Boundary

This Report provides an overview of our sustainability approach and performance for the financial year ended 31 December 2020 (“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:

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

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 nine Xtep Run 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, except for the Xtep Run Clubs.

## Our In-House Production Sites







## ABOUT THIS REPORT

### Reporting Framework

This Report is prepared in accordance with the “comply or explain” provisions of Appendix 27 – Environmental, Social and Governance Reporting Guide (“ESG Guide”) 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.

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

#### Reporting principles

#### Application in this Report

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##### Materiality

Material environmental and social issues were identified and prioritized 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 2018 and 2019 are disclosed along with 2020 where practicable to enable a better understanding of 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.



# CHAIRMAN'S MESSAGE

2020 was filled with unprecedented challenges for economies around the world. The outbreak of COVID-19 has disrupted and hampered the global economy and people's day-to-day lives. In the face of these challenges, Xtep has remained committed to its corporate social responsibility.

At the beginning of the outbreak, we made donations to support medical crews in Mainland China who were working to combat COVID-19. At the same time, we set up a dedicated taskforce to assess the situation, and we responded quickly by cooperating with local authorities to put in place effective pandemic control measures. Various emergency plans and preventive measures were implemented at the Group level to protect the safety of our employees. We also assisted our suppliers in protecting their workplaces in order to ensure that their operations would not be disrupted. These initiatives enabled us to minimize the impact of the pandemic on our business and resume operations promptly.

## Stepping up sustainability management

The uncertainty and new normal arising from the pandemic have highlighted the importance of upholding a robust governance and management framework to improve business resilience and maximize shareholder value. To strengthen our sustainability governance structure, we established a Board-level Sustainability Committee and a management-level Sustainability Working Group in January 2021. These committees assist the Board in directing, overseeing and reviewing the development and implementation of the Group's sustainability initiatives.

**DING SHUI PO**  
*Chairman*



## CHAIRMAN'S MESSAGE

During the year, we also stepped up our efforts in establishing a framework that defines the Group's sustainability objectives, supported by relevant, measurable key performance indicators. The proposed sustainability framework and targets are in the pipeline and will be submitted to the Sustainability Committee for its review and approval in 2021. Going forward, this framework will provide us with a clear direction for Xtep's sustainable development.

### Enhancing supply chain ESG performance

Given that most of our footwear and apparel products are manufactured by our suppliers, we recognize the importance of continuously enhancing our supply chain management. Apart from product quality, our suppliers' environmental and social practices can have a direct impact on our products and operations. By carefully selecting suppliers and conducting regular evaluations and on-site inspections, we ensure that our suppliers meet the Group's ESG requirements with respect to environmental management, safety and labor conditions. We also provide suppliers with practical recommendations and various ESG capability-building activities to help them improve their management of ESG-related issues.

In 2020, a large-scale on-site inspection campaign was conducted for Xtep brand suppliers to assess their compliance with the Group's ESG requirements. During the inspection, we identified various areas for improvement and recommended corrective measures for the suppliers to implement. We also continued to cultivate suppliers' ESG capabilities. In this regard, we hosted supplier training sessions and seminars that attracted over 1,300 attendances, and we supported over 50 suppliers in their efforts to establish in-house certified laboratories.

### Empowering people and society amid the pandemic

The social distancing measures that have been introduced since 2020 have not hindered our determination to promote the health and development of our employees and society as a whole. As many sports activities and running events were cancelled to prevent the spread of COVID-19, we sponsored virtual marathons as an alternative to encourage healthier lifestyles. By using various running apps, runners were able to design their own routes and track their performance. In 2020, we sponsored a total of 21 physical and virtual marathons and races which attracted over 1.5 million participants. Both the physical and virtual races fostered a sense of community among the runners and encouraged exercise during the pandemic.

To unleash the potential of our employees and advance their careers and personal growth, Xtep University offered ongoing training and development programs that could be

accessed both online and offline. In 2020, Xtep University provided over 420,000 hours of training to employees and strengthened the management skills of 70 staff members through the XMBA program.

In addition to promoting healthy lifestyles and personal development of our employees, Xtep continues to contribute to our community through various charity programmes and donations. To allow young generations in poverty to experience and enjoy sports, Xtep donated approximately RMB70 million worth of sports products to more than 900 schools in 40 cities and countries, benefiting more than 200,000 people.

### Promoting greener products and operations

We continued to advance the use of environmentally-friendly materials in our products. To provide consumers with greener options and promote the concept of environmental protection to the public, we established the XTEP-ECO Platform in 2020 to drive the Group's innovation efforts with respect to green materials. We also launched the XTEP-ECO windbreaker series, which features windbreakers that are made of biodegradable PLA woven fabric. In the short term, the use of PLA will be one of the major focuses of the XTEP-ECO Platform. At this time, we are striving to achieve additional breakthroughs in the application of PLA in a wider range of products, and we aim to develop a full line of PLA products within three years.

We are also working to reduce the environmental impact of our own production facilities. In 2020, not only did the solar panel installed at our Hunan factory continue to supply the factory with renewable electricity, it also generated excess renewable electricity that was able to be sold back to the grid.

### Outlook

The progress we made in 2020 will serve as the foundation for the next stage of our sustainability journey. With our new sustainability governance structure and plans for the Group's sustainability framework, we are committed to delivering a positive impact on society and the environment by setting clear targets, implementing effective strategies, and holding ourselves accountable.

In the coming years, we will continue to manage the ESG impact of our supply chain, provide consumers with greener sports products, support the growth of our people, and enable people of all ages to pursue an active and healthy lifestyle.



# 2020 AT A GLANCE

## ESG Highlights



Established the **Sustainability Committee** and Sustainability Working Group to drive sustainable development within the Group

Launched the **XTEP-ECO Platform** to drive sustainable product innovation



Helped over **50 suppliers** establish their certified laboratories

Sponsored **21** physical and virtual marathons and races in Mainland China in 2020, attracting more than **1,500,000 participants**



Conducted **on-site assessment of 80%** of core Xtep brand suppliers

Over **420,000 hours** of online and offline training provided to employees in 2020



Around **RMB70 million** worth of sportswear gear donated

Over **1,300 attendances** at supplier training and seminars provided by the Group





Financial Performance



Revenue

RMB **8,172** million  
 ▼ 0.1%



Operating profit

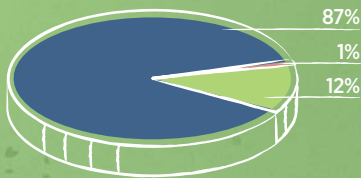
RMB **918** million  
 ▼ 25.6%



Profit attributable to ordinary equity holders

RMB **513** million  
 ▼ 29.5%

Revenue by brand nature<sup>1</sup>



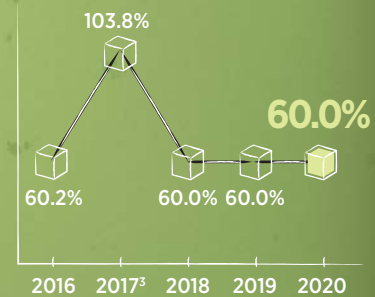
- Mass market
- Professional sports
- Athleisure



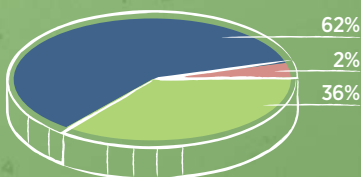
Final dividend per Share

Year	Final dividend per Share
2020	HK <b>7.5 cents</b> <sup>2</sup>
2019	HK <b>7.5 cents</b>

Full year dividend payout ratio



Revenue by product category



- Footwear
- Accessories
- Apparel



Net cash and cash equivalents

As at 31 December	Net cash and cash equivalents
2020	RMB <b>2,251</b> million
2019	RMB <b>2,132</b> million



Net asset value per Share

As at 31 December	Net asset value per Share
2020	RMB <b>2.87</b>
2019	RMB <b>2.77</b>

Note 1: Signature brands under different brand nature are as follows:  
 • Mass market – Xtep  
 • Professional sports – Saucony, Merrell  
 • Athleisure – K-Swiss, Palladium

Note 2: Including an interim dividend of HK6.5 cents per Share and a proposed final dividend of HK7.5 cents per Share, the full year dividend amounted to HK14.0 cents per share

Note 3: Special dividend included in 2017



# 2020 AT A GLANCE

## Corporate Awards and Recognitions

### Hubei Charity Federation

Medallion for COVID-19 Prevention and Control Charity Activities



### China Foundation for Poverty Alleviation, China National Garment Association

“Textile and Apparel Industry Poverty Alleviation” Excellent Contributing Enterprise



### Pingxiang City Charity Federation in Jiangxi Province

Jiangxi Pingxiang Poverty Alleviation “Caring Enterprise”



### China Zhenshan Award

Annual China Zhenshan Enterprise Award



### China Foundation for Poverty Alleviation

2019 Outstanding Contribution



### China Charity Festival

2020 Charitable Character Award — Mr. Ding Shui Po

2020 Anti-pandemic Outstanding Contributing Enterprise



### Wuhan Lung Hospital

2020 Combat against COVID-19 — Certificate of Appreciation



### Hubei Charity Federation

Outstanding Contribution Award for COVID-19 Prevention and Control Charity Donation





## 2020 AT A GLANCE

### HKIRA 6th IR Awards 2020

#### Hong Kong Investor Relations Association

- Best IR by Chairman/CEO – Mid Cap
- Best IR by CFO – Mid Cap
- Best IRO – Mid Cap
- Best IR Team – Mid Cap
- Best IR Company – Mid Cap
- Best Annual Report – Mid Cap



### 2020 8th Top 100 Hong Kong Listed Companies Selection

#### Top 100 Hong Kong Listed Companies Research Centre, Finet Group and Atlantis Investment Management

- Outstanding Brand Value Award

### 2019 4th Hong Kong Golden Stocks Awards

#### Zhitong Finance and Hithink RoyalFlush Finance

- Best Value Award for Large Consumer and Service Companies

### 3rd China Excellent IR Awards

#### Roadshow China

- Best Leader Award

### IR Magazine Awards – Greater China 2020

#### IR Magazine

- Certificate of Excellence in Investor Relations



### InnoESG Prize 2020

#### SocietyNext Foundation and co-organized enterprises

- ESG Prize





# 2020 AT A GLANCE

## Investor Relations Activities



**27**  
analysts covered the Company



**270**  
face-to-face and virtual meetings and conference calls



**3**  
financial results briefings and annual general meeting



**18**  
physical and virtual investor conferences



**21**  
physical and virtual non-deal roadshows



**2**  
physical reverse roadshows



Annual general meeting in May 2020



2020 interim results live webcast in August 2020



## 2020 AT A GLANCE

### Non-deal roadshows and investor conferences:

During the year, we participated in physical and virtual non-deal roadshows and investor conferences which covered the cities where majority of the institutional investors are located.



### non-deal roadshows and investor conferences

covering major cities in North America, Europe and Asia-Pacific, including but not limited to Mainland China, Hong Kong, Taiwan and Singapore.



### List of investor conferences attended during the year:

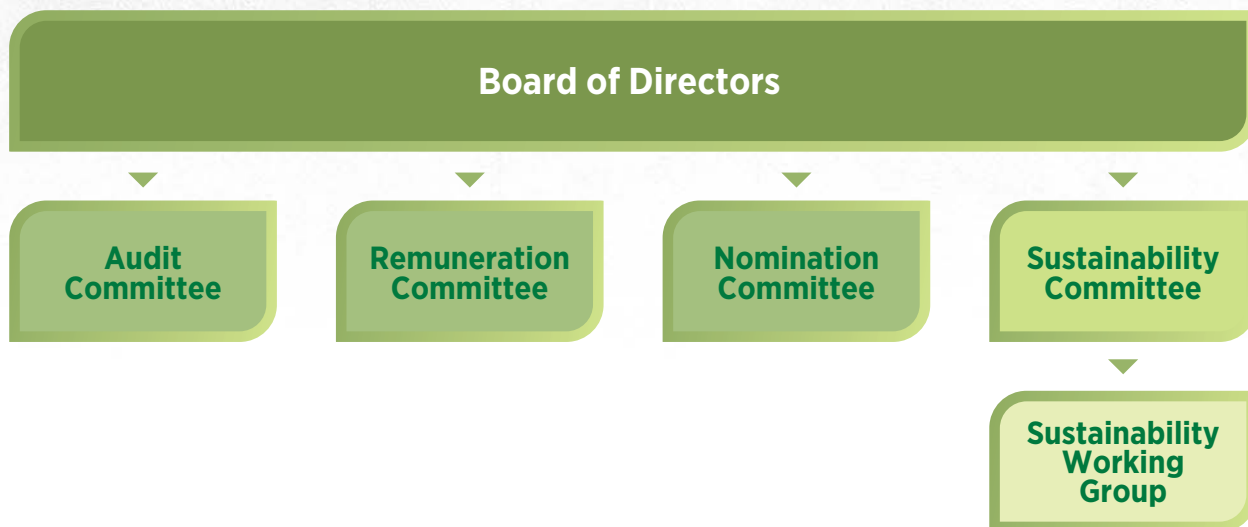
Date	Event	Format
Jan 2020	Goldman Sachs Consumer Corporate Day (HK)	Physical — Hong Kong
Jan 2020	Citi Hong Kong and China Consumer Corporate Day 2020	Physical — Hong Kong
Jan 2020	J.P. Morgan Consumer Corporate Day	Physical — Hong Kong
Jan 2020	UBS Greater China Conference 2020	Physical — Shanghai
May 2020	Daiwa Consumer & Gaming Conference	Virtual
May 2020	Jefferies Asia Sportswear & Supply Chain Corporate Days 2020	Virtual
May 2020	J.P. Morgan Asia Consumer Forum	Virtual
May 2020	CICC Investment Strategy Conference 2020	Virtual
Jun 2020	Credit Suisse 2020 Asia Consumer Virtual Conference	Virtual
Jun 2020	Citi Consumer Corporate Day	Virtual
Jun 2020	Goldman Sachs Greater China Corporate Day	Virtual
Jun 2020	BofA Securities 2020 Innovative China Virtual Conference	Virtual
Jun 2020	Huatai Mid-Year Investment Summit 2020	Virtual
Sep 2020	Jefferies Asia Forum 2020	Virtual
Sep 2020	ICBCI 2nd Consumer Corporate Day	Virtual
Sep 2020	RBC Luxury Asia trip	Virtual
Nov 2020	11th Credit Suisse China Investment Conference	Virtual
Nov 2020	Citi China Investor Conference 2020	Virtual



# CORPORATE GOVERNANCE

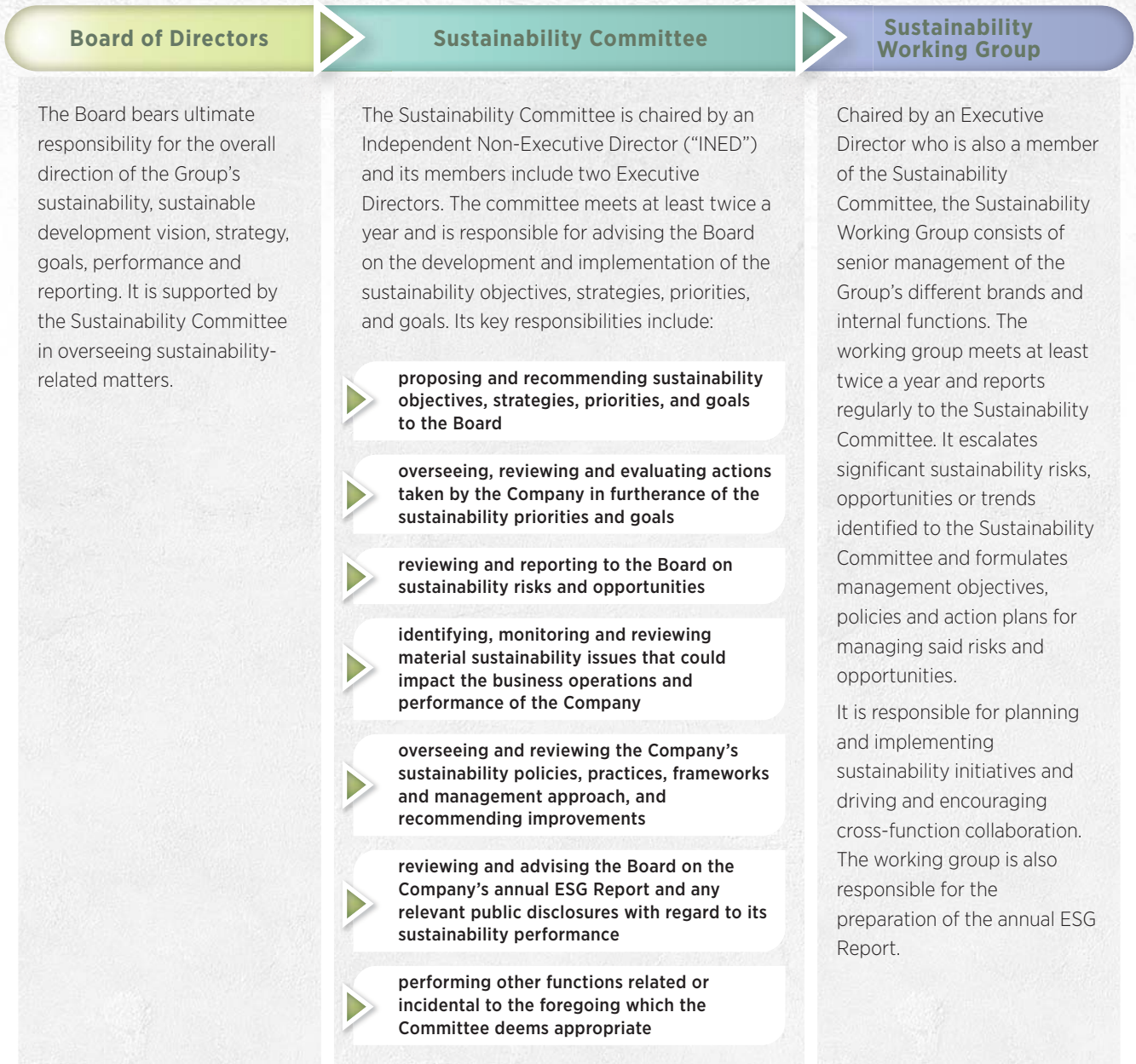
## ESG Governance

We recognize 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 Board approved the establishment of an ESG governance structure consisting of the Board, a Board-level Sustainability Committee and a management-level Sustainability Working Group in December 2020.





## ESG Governance Structure



## Key ESG Governance Activities in 2021

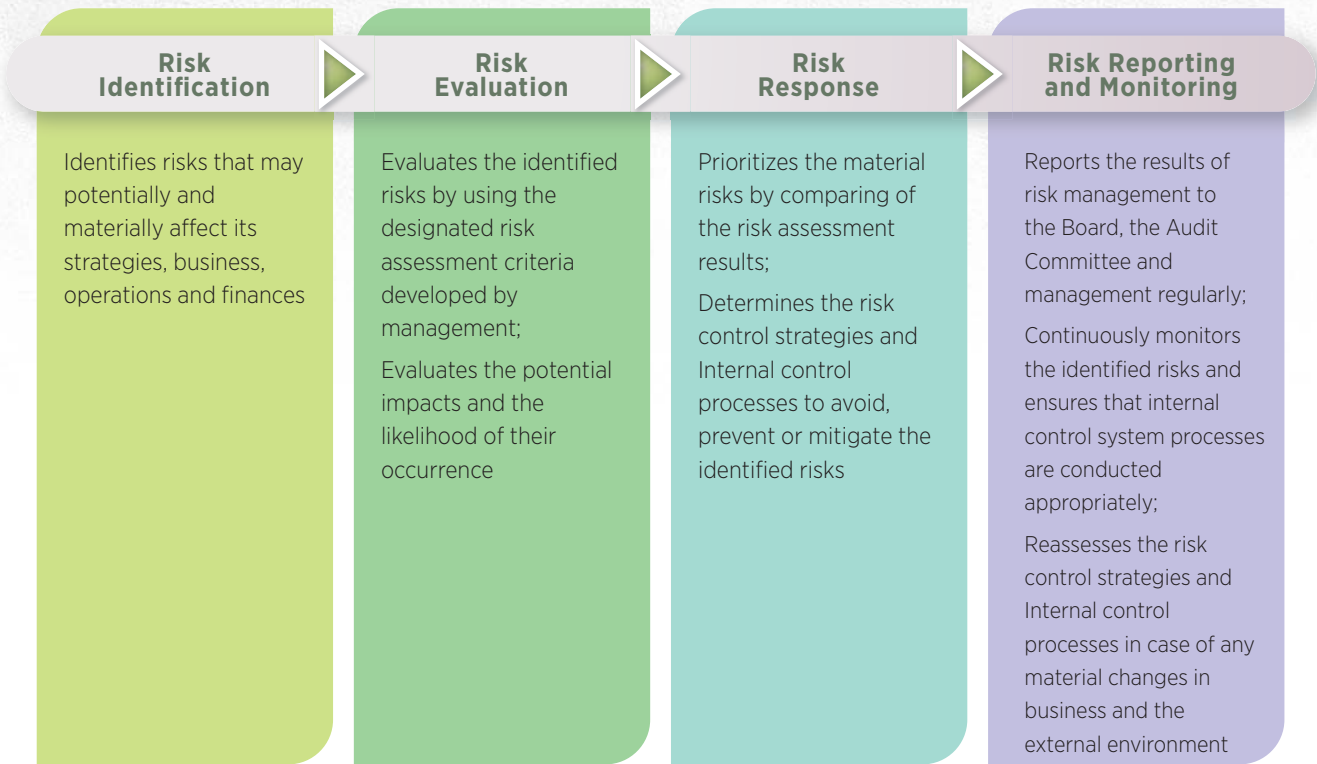
Both the Sustainability Committee and the Sustainability Working Group had their first meeting in the first half of 2021. The Sustainability Working Group is undergoing the process of evaluating the key sustainability areas the Group should focus on. The goal is to establish a framework that defines the sustainability objectives of the Group, the achievement of which will be measured by KPIs and targets. The proposed sustainability framework and targets will be submitted to the Sustainability Committee for review and approval in 2021.



# CORPORATE GOVERNANCE

## Risk 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 summarized as follows:



We continue to review our risk profile and identify and assess potentially material ESG-related risks. We are aware of the emerging issue of climate change and its effect on the Group. Such changes in climate including global temperature increases and changing climate patterns around the world can present both physical and transition risks to our operations. Physically, more frequent extreme weather events 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 lead to an increase in our costs of production.

We are in the course of formulating policies on climate change. Currently we already have in place different initiatives to mitigate the impact of climate change through managing our energy consumption and developing environmentally-friendly products. We will pay attention to the risks and opportunities associated with climate change and review our management approach as appropriate in the future. For more details regarding our existing initiatives, please refer to the sections “Sustainable Innovation” and “Resource Efficiency”.



## CORPORATE GOVERNANCE

### Anti-Corruption

The Group is committed to achieving and maintaining the highest possible standards of openness, integrity and accountability. To prevent as far as possible violations and ensure that operations comply with high ethical standards, the Group has specific whistle-blowing 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-blower 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 detail our anti-corruption requirements with reference to 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 organized four anti-corruption trainings for new joiners in 2020 to build a culture of integrity among them. The training was also recorded and provided to employees in an e-learning format.

In 2020, there were no concluded legal cases regarding corrupt practices brought against the Group or its employees, and there were no instances of non-compliance with relevant laws and regulations that had a significant impact on the Group relating to bribery, extortion, fraud and money laundering.





# STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

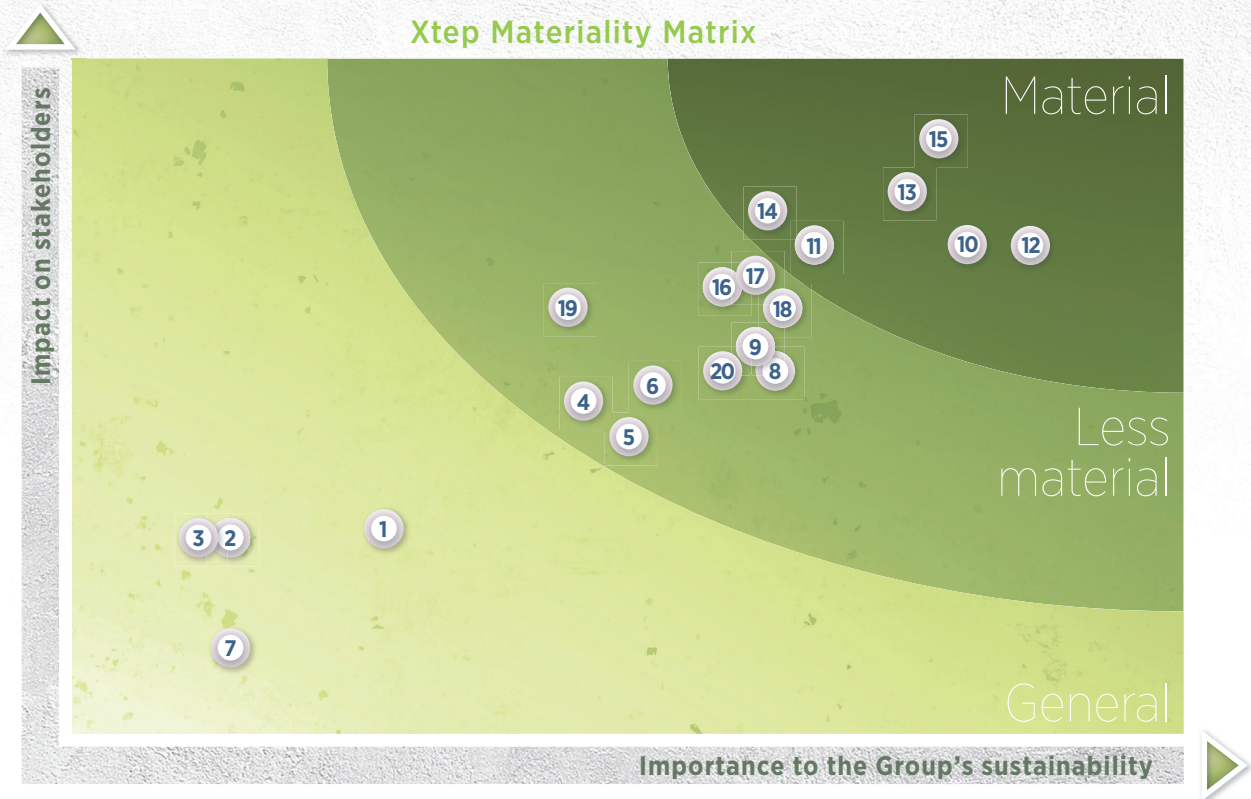
Stakeholders' expectations are critically important to the Group's efforts to define its sustainability strategy and reporting. We aim to nurture our relationships with both our internal and external stakeholders to ensure we are responsive and inclusive.

We commissioned an independent consultant to conduct a stakeholder engagement exercise so that we could identify the Group's material sustainability issues. Through this exercise, we revisited and updated our list of material issues taking into account our current business operations and the expectations of different stakeholders. The assessment consisted of three stages:





## STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT



### Relevant sustainability issues identified

- |                                  |  |
|----------------------------------|--|
| 1 Energy consumption             | 11 Employee training and development       |
| 2 Water consumption              | 12 Labor rights                            |
| 3 Packaging material use         | 13 Occupational health and safety          |
| 4 Air emissions                  | 14 Product innovation                      |
| 5 Wastewater discharge           | 15 Product quality and safety              |
| 6 Hazardous waste management     | 16 Supply chain management                 |
| 7 Non-hazardous waste management | 17 Intellectual property rights protection |
| 8 Climate change                 | 18 Anti-corruption                         |
| 9 Greenhouse gas emission        | 19 Marketing and promotion practice        |
| 10 Employment                    | 20 Social contribution                     |

The materiality assessment 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 six issues of product quality and safety, labor rights, employment, occupational health and safety, employee training and development, and product innovation. Related disclosures are made in this Report to respond to the concerns of the stakeholders.

Despite the results, we recognize the growing concern regarding the environmental impact of the sportswear industry and intend to continuously enhance the transparency of our performance in this area.



# PRODUCT AND SUPPLY CHAIN

The sportswear industry relies heavily on a multitiered system of suppliers and subcontractors. Consumers, investors, and leading industry players are growing more concerned about whether environmental and labor issues in the supply chain are being properly managed. Product quality control is also highly important to sportswear brands' efforts to deliver consistently high-quality products to consumers.

For Xtep, proper management of environmental and labor issues and product quality control can reduce the risk of high-profile ESG incidents or large-scale recalls, enabling the Group to create sustainable shareholder value over the long term.

## 2020 Highlights

Conducted on-site assessment of **80%** of core Xtep brand suppliers



Over **1,300 attendances** at supplier training and seminars provided by the Group



Helped over **50 suppliers** establish certified laboratories with help from the Group



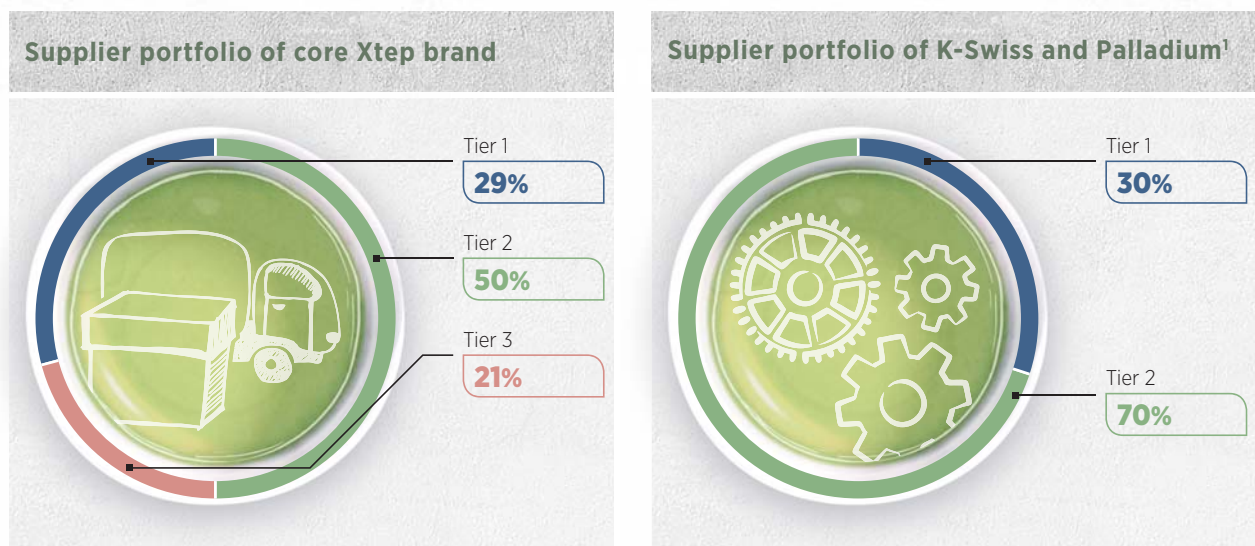


## PRODUCT AND SUPPLY CHAIN

### Supply Chain Management

The supply chain is an integral part of the Group's operations. We source raw materials and parts used in our products from different suppliers, while outsourcing a large proportion of product manufacturing to different original equipment manufacturers ("OEMs"). Currently, 64% of our footwear and 88% of our apparel is manufactured by our suppliers, and we are committed to implementing environmentally and socially responsible practices in the management of our vast supply chain.

As of 2020, the Group had a total of 306 suppliers, with 295 located in China and 11 overseas. The breakdown of these suppliers by nature is as follows:



### Supplier definitions

#### Tier 1 Suppliers

- Suppliers providing finished products and their providers of special manufacturing processes

#### Tier 2 Suppliers

- Suppliers of materials (e.g. shoe uppers, soles, fabric, etc.) and their providers of special manufacturing processes

#### Tier 3 Suppliers

- Suppliers of accessories (e.g. zips, buttons, Velcro, etc.), packaging materials, labels, raw materials (e.g. leather, down feather, yarn, etc.) and chemical testers

The Supplier Management Center and dedicated teams from different brands are responsible for assessing and managing the performance of suppliers. To ensure that suppliers' ESG performance aligns with our standards, all suppliers are required to comply with our Supplier Code of Conduct, which is communicated to suppliers during the contracting stage.

As part of the regular supplier assessment process, we assess the ESG performance of both new and existing suppliers. In general, our supplier assessment process can be divided into two stages: new supplier admission and ongoing assessment.

<sup>1</sup> Tier 3 supplier data are not available; Saucony and Merrell are excluded as we directly import most of the finished products from our business partner.



# PRODUCT AND SUPPLY CHAIN

## New Supplier Admission

In 2020, all new suppliers in China were assessed by our in-house team, with a few suppliers overseas assessed by third-party auditors.

### INITIATION

Departments initiate the new supplier admission procedure by completing a form with the details of their demand and basic information of the supplier to be introduced. The request will be reviewed by the Supplier Management Center, and the assessment process will be initiated once the request is passed.

### ASSESSMENT

Potential suppliers will be invited to complete a Supplier Information Form, and provide relevant certifications and licenses including credit reports, tax certificates, payroll records, relevant certifications (e.g. ISO 9001, ISO 14001 and ISO 45001 certifications), fire safety inspection results and environmental impact assessment reports.

### DOCUMENT REVIEW

There are also additional requirements for specific suppliers with higher environmental and safety risks. Chemical suppliers are required to provide their Hazardous Chemicals Production License and other relevant government approval documents. Fabric and printing suppliers are required to provide emission permits and undergo on-site inspections of their emission facilities.

Suppliers that receive a rating of 70% or above will enter the next stage of on-site inspection.

The on-site inspections are conducted by the Supplier Management Center and relevant department representatives (for suppliers in China) or third-party auditors (for suppliers outside China). The assessment criteria and the weighting of assessment scores vary among different brands. For reference, suppliers of our core Xtep brand are assessed following the five aspects below:

Quality management system	Key quality control points	Research and development (R&D) and production process management system	Logistics and workshop management	Environmental and safety management
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Among these, environmental and safety management makes up 10% of the total assessment score<sup>2</sup>, covering the following assessment criteria:

Emergency planning	Fire safety equipment	Machinery and employee safety provisions	Injury prevention measures and mitigation
Employee accommodation and catering	Basic labor rights requirements (in particular child and forced labor)	Compliance with national environmental laws and regulations	

To ensure the credibility of the on-site inspection, a list of the documents required will be provided to the supplier 24 hours before the assessment takes place, and suppliers that cannot provide the information will receive 0 point for that specific indicator. We are concerned about the human rights, and any case of child and forced labor or any significant occupational safety issue observed in the inspections will result in the termination of the supplier admission process.

### ADMISSION

The findings of the on-site inspection will be documented, and a composite score will be given to the supplier. Suppliers with a composite score of 70% or above are accepted directly, while suppliers scoring 60% to below 70% are conditionally accepted with a three-month correction period. The assessment results of suppliers that fail are archived so that the Group will be alerted if there are future admission attempts.

<sup>2</sup> The relevant environmental and social assessment scores of K-Swiss and Palladium account for 25%



## PRODUCT AND SUPPLY CHAIN

### Ongoing Assessment

Suppliers of the Group are subject to on-going assessments, which consist of on-site inspections, financial and qualification assessments, and supplier performance assessments for special collaboration projects with brands.

The on-site inspection assesses suppliers based on the same five aspects addressed in the supplier admission process. For the core Xtep brand, environmental and safety performance makes up 5% of the entire inspection. Throughout the assessment process, the inspection team identifies potential improvement areas and provides practical improvement suggestions for suppliers to implement. There are four levels of improvement requirements depending on the score the supplier receives:

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

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

In the fourth quarter of 2020, the Group Supplier Management Center performed annual on-site inspections of suppliers that have collaborated with the core Xtep brand for one or more years, which account for 80% of the brand's supplier portfolio. K-Swiss and Palladium also performed inspections of its Tier 1 suppliers with the help of the Supplier Management Center and third-party auditors<sup>3</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.

<sup>3</sup> For Saucony and Merrell, we import the final product from our business partner and relevant supplier assessments were conducted by the business partner.

## PRODUCT AND SUPPLY CHAIN

### Supplier engagement

We continuously engage our suppliers through different channels to better communicate our expectations and help them improve. In 2020, we conducted the annual seminar on the supplier assessment process to introduce suppliers to the latest supplier requirements in China and obtain their feedback on the existing environmental and safety assessment criteria. For overseas suppliers, we engaged a third-party auditor to organize regular training on ESG-related matters.

### Collaborating with suppliers to mitigate COVID-related risks

The COVID-19 pandemic led to a temporary suspension of production in early 2020, and the risk of operational disruption continued to loom over the global supply chain throughout the year. To prevent any disruption to our supply chain, we adopted various measures to:



Ensure a reasonable spread of suppliers to diversify the impact of the pandemic on the entire supply chain



Maintain alternative suppliers of key products



Communicate with suppliers on their COVID-19 emergency response

We also paid attention to the health and safety of our workers and required suppliers to adopt the following preventive measures:



Check daily temperatures at work



Provide surgical masks



Maintain proper ventilation indoors and avoid unnecessary gatherings



## PRODUCT AND SUPPLY CHAIN



### Product and Service Quality

#### Product and Material Quality Assurance

Quality specifications and quality assurance are of prime importance to the Group's production processes. The Group's products are subject to stringent quality control tests before they are sold. Quality control tests are also performed during the production process to ensure that the items meet the Group's quality requirements. In general, quality control is handled by the quality control teams of each brand who are responsible for performing such testing and inspection as well as collaborating to enhance supplier quality control capabilities through collaboration.

#### Product quality control process

The Xtep brand has adopted the ISO 9001-certified quality management system to standardize the production process. At the research and development stage, the Standards teams perform thorough tests and verification of the products and the materials used and formulate standards for mass production. In 2020, the teams continued to formulate and review different quality management documents to enhance the quality management system and built an Xtep Quality Information Sharing Platform to realize the standardization of the management and implementation of quality management documents between the Group and its suppliers.

At the production stage, dedicated quality management teams monitor the quality and safety of the raw materials and finished products from both the suppliers' and the Group's production lines. The quality management teams perform regular quality control activities during the in-house production process and inspect regularly the product quality of our suppliers to ensure that the finished products pass physical and chemical standards before being delivered to customers. Every quarter, the raw materials and finished products will be sent to nationally certified third-party laboratories for testing to ensure product quality and safety.

For other brands where the production processes are entirely outsourced, we have established separate quality control policies to standardize quality control processes. In general, quality tests are performed by our quality management teams either upon arrival of the products at our Quanzhou Logistics Center or directly on-site at the supplier factories.

## PRODUCT AND SUPPLY CHAIN

### Enhancing product quality control with suppliers

To enhance the Group's overall product quality control, we actively assist our suppliers in building their quality control capabilities. In 2020, various seminars and training were provided to Tier 1 and Tier 2 suppliers to convey our quality management standards and processes. We also collaborated with nationally certified third-party laboratories to provide technical training to suppliers' laboratory operators to enhance their professional knowledge. In 2020, more than 1,300 supplier representatives attended the training and seminars provided by the Group.

We also continue to support our suppliers in their efforts to establish or enhance their testing laboratories. In 2020, we helped over 50 suppliers establish certified laboratories, including different apparel and footwear suppliers of the Group.

### After-sales quality management

We stand behind the products we deliver and have established clear policies on how customer complaints and product defects should be handled. 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. In 2020, the "400 Hotline" received approximately 3,000 product and service-related complaints, which were properly handled per our internal procedures.

We also have in place policies for products that are recalled due to quality issues or other reasons. Any major product recall will be comprehensively investigated by the Quality Management Center, and the investigation results will be submitted to senior management and the relevant departments. Responsible departments will implement appropriate corrective measures to mitigate the defects identified and prevent future incidents from occurring. In 2020, there were no major product recalls due to health or safety reasons.

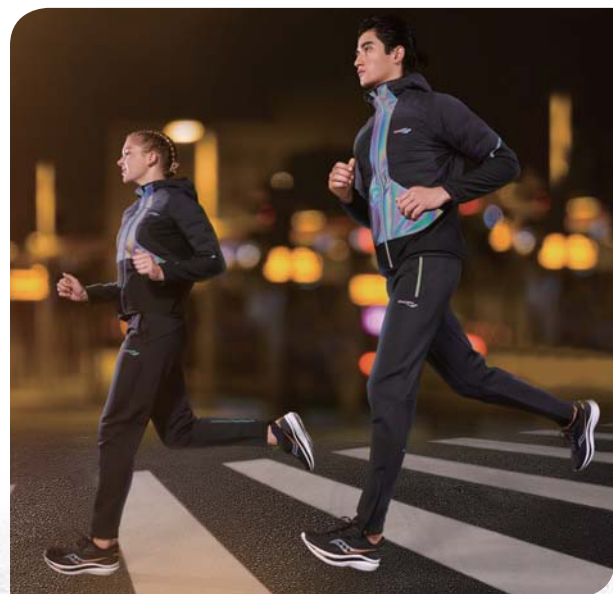
0  
major product recall  
due to health or  
safety reasons



### Protecting Intellectual Property and Consumer Privacy

We respect intellectual property rights and endeavor to protect the Group from reputational damages arising from the infringement of its intellectual property. In managing intellectual property rights, we abide by 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 handle with any infringement of the Group's intellectual property. 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.

We also strive to protect consumers' personal information, and 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 consumers' personal information.







# PEOPLE EMPOWERMENT

With the rapid change in consumer preferences and production technology, there is significant demand for employees with specialized skills who can develop, trial and commercialize sportswear products to meet consumers' needs for products that are functional, fashionable and responsible. The industry is also labor-intensive and relies on skilled workers to manufacture products of high quality. Therefore, it is important for the Group to be able to attract and retain such employees by offering them competitive compensation, adequate development opportunities and a safe work environment.

Throughout the recruitment and employment process, we abide by relevant laws and regulations including the "Labor Law of the People's Republic of China" and the "Labor Contract Law of the People's Republic of China". We 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 care about ensuring that our employees are not discriminated against or harassed due to their gender, age, ethnicity, nationality, marital status or religion.

## 2020 Highlights

Over **420,000 hours** of online and offline training provided to employees in 2020



Sponsored **21** physical and virtual marathons and races in Mainland China in 2020, attracting more than **1,500,000 participants**



Around **RMB70 million** worth of sportswear gear donated



# PEOPLE EMPOWERMENT

## Employment and Welfare

### Employment

An excellent and talented team is the foundation of a successful enterprise. As at 31 December 2020, we had 7,980 employees (31 December 2019<sup>4</sup>: approximately 8,500 employees), and a breakdown is shown below.



<sup>4</sup> Excluding Hong Kong, Taiwan and overseas office employment data



# PEOPLE EMPOWERMENT

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 labor, 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.

### Employee turnover in 2020



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. In

addition, we have 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 at regular intervals. The appraisal results will be documented by the Human Resources department, which will determine whether the employee is eligible for promotion or wage level review.

## PEOPLE EMPOWERMENT

### Welfare and Leisure

The Group has put in place a welfare system that entitles employees to statutory benefits including social insurance, and paid holidays including statutory holidays, annual leave, maternity leave, paternity leave and sick leave. In addition, we also provide eligible employees with different corporate benefits and subsidies, such as daily meals, transportation subsidies, and accommodation subsidies. Furthermore, to promote the physical and mental health of our employees, free medical checkups are provided every year.

To create a sound work environment, we provide employees with a variety of open spaces for recreational and leisure activities to enhance their wellbeing. We also promote work-life balance by organizing various leisure activities for different staff interest groups.

### Employee Cafeteria Upgrade

We continuously introduce new cuisines and beverage options, provide free nutritious dinners for employees, organize monthly food festivals and add new food stalls to enhance the wellbeing of our employees.



### Senior Management Service Day

On specific days, our management prepares and serves meals to our staff as encouragement, providing the opportunity for management to interact with employees of different levels.



### Employee Mutual Aid Fund

This fund provides financial assistance to the families of employees suffering from major illnesses or emergencies.

### Sunshine Sharing Event

Each center organizes departmental trips and visits to broaden the horizons of employees, cultivate team spirit within departments, enhance team cohesion and develop a sound corporate culture.

### Safeguarding Health

We organize free medical checkups for all employees.



Running Culture

We encouraged employees to participate in the 2020 Xiamen Marathon, Haicang Half Marathon, Huandong Half Marathon and other activities; continued to organize and carry out 321 running festivals and other national joint running activities; established a center-based employee running group, and organized running activities regularly to promote a healthy and fun running culture within the Group.



Corporate Culture

At the beginning of the year, the "Talent Highlights" project was launched, which aims to promote outstanding employees who responded quickly and filled positions in a timely manner during the pandemic; in April 2020, we launched the Xtep Fighting Baby emoji pack to promote the spirit of dedication; Furthermore, the 2020 Cultural T-shirt Design Contest integrated the theme of dedication into employees' daily lives.

Club Activities

We organize diversified employee interest clubs in areas such as sports and entertainment; the Group has a total of 120 sports leagues (e.g. basketball, football, badminton, table tennis) which have attracted around 600 participants; these activities enrich employees' spare time and promote their welfare.

Holidays and Employee Birthday Parties

We organize activities to celebrate holidays such as International Women's Day, Labor Day, Mother's Day, Father's Day, Teachers' Day, etc.; and we send out birthday gifts every month to deliver love and care, and strengthen the link between employees and the Company.



## PEOPLE EMPOWERMENT

### Training and Development

We are committed to becoming an outstanding employer and strive to nurture our employees. We make great efforts to build a diversified career development platform for our employees, and we provide them with competitive remuneration and benefits and comprehensive career development training to fully unleash their potential.

We support the career and personal development of our employees through a variety of human resources initiatives and trainings that empower them to achieve their personal goals. Xtep University, which was established in 2014, provides ongoing training and development programs

related to corporate culture, leadership, retail and manufacturing. For instance, retail operations staff can participate in various online and offline trainings offered by the Faculty of Retail, such as store manager workshops, product display instruction and store efficiency improvement training.

As of 31 December 2020, Xtep University had offered a total of 457 courses through Five Faculties and Xtep Online Training Platform, providing over 420,000 hours of online and offline training to employees. In addition, a two-year XMBA program held jointly with Xiamen University has allowed 70 staff to sharpen their management skills.



**457** courses through Five Faculties and Xtep Online Training Platform

Over **420,000 hours** of online and offline training provided to employees in 2020

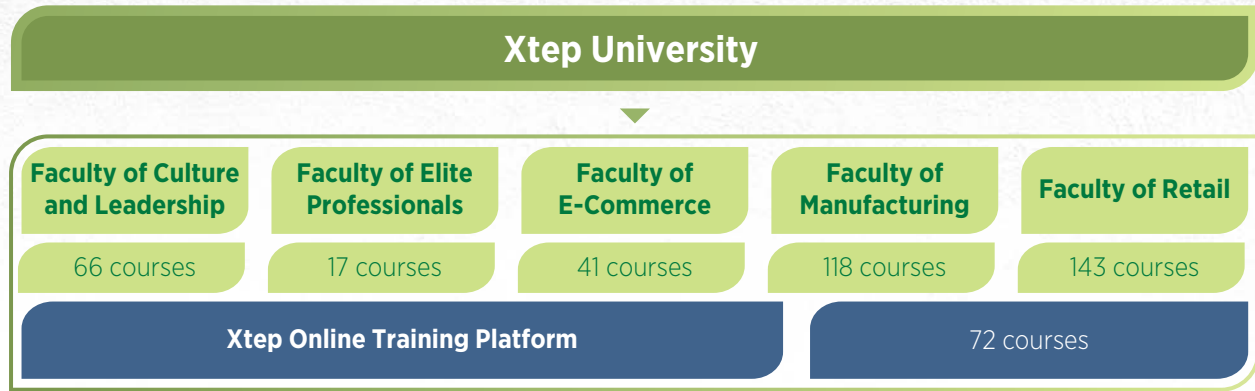




## PEOPLE EMPOWERMENT

### Structure of Xtep University and Number of Courses in Each Faculty

Xtep University comprises five faculties and one department, encouraging our employees to develop into management talents and professionals.



Five Faculties	Purpose of the Faculty
<b>Faculty of Culture and Leadership</b>	<ul style="list-style-type: none"> <li>Carry out planning and formulate leadership development strategies for various levels and types of talent; organize and coordinate internal resources, design and run various leadership development programs, mainly covering the Group's middle and senior management</li> </ul>
<b>Faculty of Elite Professionals</b>	<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Faculty of E-Commerce</b>	<ul style="list-style-type: none"> <li>Based on the experience of the e-commerce and management teams, provide services related to business consulting, training, team management and leadership development, mainly covering the Group's e-commerce staff</li> </ul>
<b>Faculty of Manufacturing</b>	<ul style="list-style-type: none"> <li>Provide targeted training for manufacturing professionals, production management talent and other professional talent, mainly covering manufacturing staff</li> </ul>
<b>Faculty of Retail</b>	<ul style="list-style-type: none"> <li>Respond to the group's strategic needs, improve organizational performance and develop comprehensive retail talent who embrace Xtep's values, mainly covering the Group's retail staff</li> </ul>





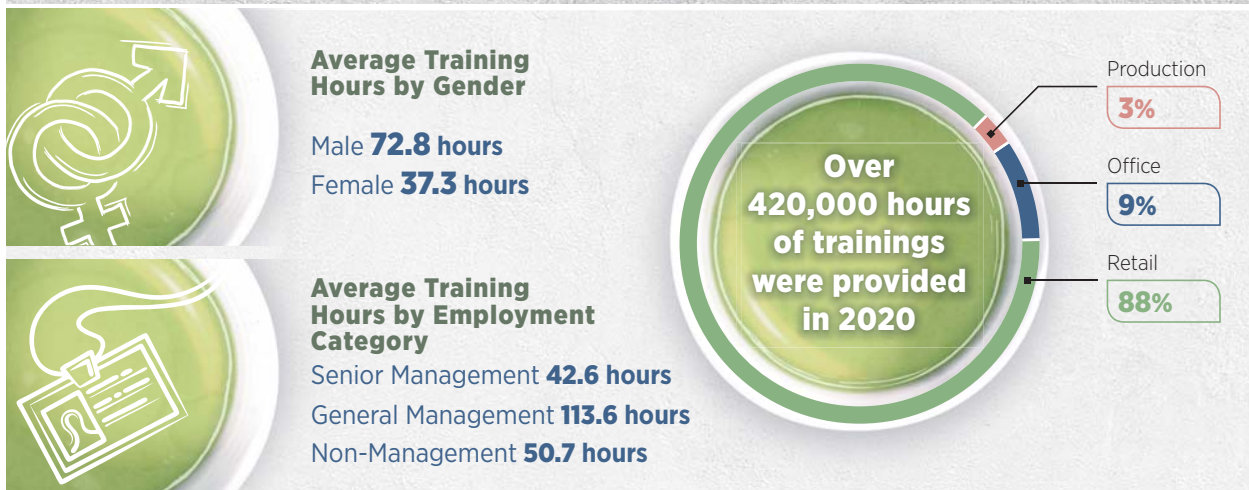
## PEOPLE EMPOWERMENT

Xtep University is committed to creating an equal, friendly and open atmosphere, providing training for employees at all levels to meet their basic training needs. At the corporate level, Xtep University collaborates with the Human Resources Department to assess the training needs within the organization. Based on the identified training

needs, training plans will be formulated and implemented. Functional departments can also raise specific training needs to Xtep University, or arrange their own tailored training programs. The Corporate Culture Department is mainly responsible for promoting corporate values, and organizing and promoting corporate culture activities.



### Total Training Hours by Function





## PEOPLE EMPOWERMENT

### Health and Safety

The Group has set up an Environment and Occupational Health and Safety Management System that is OHSAS 18001 and ISO 14001-certified to systematically manage health and safety-related matters at our facilities and standardize the operations of our employees. In line with standards and relevant laws and regulations, we have also put in place detailed operating procedures, working guidelines and manuals to provide necessary guidance on safety procedures and processes at work.

Preventing risks, eliminating hazards and avoiding accidents are our principles in managing occupational health and safety. In order to minimize safety risk, 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.

Potential Safety Hazards	Events, Products and Services	Hazards	Business Units	Management Approach		
				Targets	Standard Procedures	Emergency Response Plans
Fire and explosions	Production and daily operations	Personal injury	• Entire company	✓	✓	✓
Machinery accidents	Production and maintenance	Personal injury	• Footwear factories • Clothing factories	✓	✓	✓
Electric shocks	Production	Burns or fatalities	• Entire company	✓	✓	✓
Traffic accidents	Transportation (on-site and off-site)	Property damage and personal injury	• Administration center of manufacturing department, manufacturing department	✓	✓	
Food poisoning	Food and Drinks	Food poisoning	• Administration center of manufacturing department	✓	✓	✓
Mechanical noise	Production	Hearing loss	• Footwear factories • Clothing factories	✓	✓	
Air emissions	Production	Respiratory tract infection	• Footwear factories		✓	
Chemicals	Use of chemicals	Explosion, burning, poisoning, occupational disease	• Footwear factories • Storage of raw materials for footwear production	✓	✓	✓

## PEOPLE EMPOWERMENT

Based on the work nature of different employees, we provide suitable protective equipment and relevant safety training before commencing work. A safety officer is present at each shift to inspect whether frontline workers are following 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 training allows employees to understand the potential risks of their work, raises their safety awareness and prevents the occurrence of accidents.

To provide comprehensive protection for our employees, we offer free annual health checkups and periodically conduct different emergency drills to improve the health and safety awareness of our employees.

### Occupational Health and Safety Statistics<sup>5</sup> in 2020



We are not aware of any non-compliance with laws and regulations in 2020 that had a significant impact on the Group with respect to occupational health and safety. Among the 25 injuries that occurred during the year, a majority of them were fall incidents or minor machinery-related injuries, and there were also some commuting accidents that occurred on employees' way home after work. All cases were reported to the local authorities for occupational injury assessment and follow-up actions.

### Combating COVID-19

The wellbeing and safety of our employees is our foremost concern. When the outbreak started to spread across Mainland China in January 2020, the Chinese government implemented containment measures to curb the pandemic, and retail stores were temporarily closed. Manufacturing operations and public transportation in Mainland China were also suspended to prevent the transmission of the virus.

To address the sudden outbreak of the pandemic, we immediately established a dedicated taskforce at the group level to safeguard our employees and ensure efficient management in the face of these unprecedented challenges. The taskforce quickly developed the Emergency Response Plan for Pandemic Prevention and Control as well as the Guidelines for Protection Work. The Group invited a third party to assist in delivering the guidelines, orders and directions to the entire Group through various communication channels, including the Group's social media platform and general notices.

<sup>5</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.



# PEOPLE EMPOWERMENT



A flexible work from home policy was first adopted when the COVID-19 pandemic struck in January 2020. When the pandemic restrictions were eased, we spared no effort in assisting every employee from our headquarters and factories in returning to their workplaces. Residential histories and return itinerary plans were collected from each of them, and necessary communications were made with their residential communities to ensure a smooth

return. We also implemented precautionary measures to protect employees' health and ensure a safe work environment. For instance, our headquarters in Xiamen and five in-house factories underwent thorough disinfections regularly, and each employee was offered personal protective equipment, such as masks, disinfecting wipes and hand sanitizer.



## PEOPLE EMPOWERMENT

### Advocating Healthy Lifestyles

Over the years, we have continued to adopt a two-pronged marketing strategy that consists of marathon and running event sponsorships as well as celebrity endorsements, combining sports with entertainment to uplift our brand image and promote a healthy lifestyle.

### Marathon Sponsorships

Marathon events around the world faced severe disruptions from the COVID-19 pandemic. However, we devised an alternative way to sponsor running events without bringing large numbers of people into close proximity. Following the Xiamen Marathon held in January 2020, we sponsored several virtual races during the year. Participants who signed up for virtual races online used various running apps to track their performance, and they could design their courses themselves, either indoor or outdoor.

Although restrictions on outdoor recreation were in place in the first half of 2020 due to the pandemic, physical marathons and road races gradually resumed in the second half of the year. The disruption faced by marathon events did not hinder our determination to sponsor large-scale marathons and races and promote public health. During the year, we sponsored 12 physical marathons and nine virtual races in Mainland China that attracted over 1,500,000 participants.



**21**  
physical and virtual  
marathons and races  
sponsored in Mainland  
China in 2020

**1,500,000+**  
participants joined  
the marathons  
or virtual races





## LIST OF MARATHON AND RUNNING EVENT SPONSORSHIPS

- 1 **Xiamen Marathon** JANUARY 2020
- 2 **Chongqing Marathon (Virtual)** MARCH 2020
- 3 **Wuhan Marathon (Virtual)** APRIL 2020
- 4 **Chengdu Marathon (Virtual)** JUNE 2020
- 5 **Xiamen Marathon (Virtual)** JUNE 2020
- 6 **Jiangsu Cloud Run (Virtual)** JUNE 2020
- 7 **Hengshui Lake Marathon** SEPTEMBER 2020
- 8 **Taiyuan Marathon (Virtual)** SEPTEMBER 2020
- 9 **Xtep China Speed Elite Classic and First Duolun Marathon** SEPTEMBER 2020
- 10 **Wuhan Marathon (Virtual)** OCTOBER 2020
- 11 **Chongqing Marathon (Virtual)** OCTOBER 2020
- 12 **Taiyuan Marathon** OCTOBER 2020
- 13 **Chongqing Marathon** NOVEMBER 2020
- 14 **China Annual Ranking Marathon** NOVEMBER 2020
- 15 **Chengdu Marathon** NOVEMBER 2020
- 16 **Nanjing Marathon** NOVEMBER 2020
- 17 **Xiamen (Haicang) International Half Marathon** DECEMBER 2020
- 18 **Xiamen East Rim International Half Marathon (Virtual)** DECEMBER 2020
- 19 **Xiamen East Rim Half Marathon** DECEMBER 2020
- 20 **Fuzhou Marathon** DECEMBER 2020
- 21 **Changsha Red Half Marathon** DECEMBER 2020



## PEOPLE EMPOWERMENT





## PEOPLE EMPOWERMENT

### Appreciating Chinese Culture — “Xtep x Shaolin (少林)” Collection

We took our existing partnership with Shaolin Temple to the next level with the debut of our “Xtep x Shaolin” collection at Shanghai Fashion Week in October 2020. The collection, which displayed the traditional and ancient elements of Shaolin martial arts in a modern way, received widespread attention at the fashion show. As the first sportswear brand to cooperate with Shaolin Temple, we will continue to tap into the “China chic” trend by developing products that showcase beautiful elements of Chinese culture and fashion.



### Promoting Street Dancing

We collaborated with street dancers to promote our “Street” series to young people through the new “Tebufu 3.0” marketing campaign. The campaign, which symbolizes boldness and perseverance, strategically increased our appeal to younger consumers. Additionally, we continued to serve as the official designated apparel sponsor of “Boys and Girls Run Forward”, a popular variety show in Mainland China.





## PEOPLE EMPOWERMENT

### Community Investment

As a committed corporate citizen, we believe in supporting people in need and building a better community together. To achieve these goals, we continuously engage with communities, collaborate with local charitable organizations, and encourage our staff to participate in volunteer activities.

In recent years, we have worked closely with the China Next Generation Education Foundation to donate sportswear gear to students at schools in Shandong, Sichuan, Guizhou, Yunnan, Inner Mongolia, Ningxia and Qinghai provinces. Going forward, Xtep will seek to improve the quality and coverage of its charitable activities, adopt new formats and enrich the content of its activities to allow young people living in poverty to not only experience sports, but also enjoy sports.



Xtep donated around **RMB70 million** worth of sportswear gear to more than **900 schools** in 40 cities and counties, benefiting more than **200,000 people**



### Xtep's Chairman, Mr. Ding Shui Po, was listed on the 2020 Forbes China Philanthropy List

In July 2020, Xtep's Chairman, Mr. Ding Shui Po, was listed on the 2020 Forbes China Philanthropy List for the second consecutive year. In 2011, Mr. Ding established the "Ding Family Foundation" in his hometown of Jinjiang City. In 2020, Mr. Ding donated to the 18th ISF (International School Sport Federation) Gymnasiade (School Summer Games) in Jinjiang to support the construction of venues and facilities, and the infrastructure development of Jinjiang No. 1 Middle School.

### Teaming Up with Jeremy Lin

Xtep teamed up with Jeremy Lin, the Group's spokesperson and charity ambassador, to launch a charity project in the 2019-2020 season. For every three-pointer Lin shot in the CBA games, Xtep donated RMB 3,000 worth of sportswear products to Dandelion School in Beijing, a non-profit school for children from low-income migrant families. The collaboration with Lin helped raise our brand affinity and demonstrated our social responsibility efforts.

### Providing Support to Medical Professionals during the COVID-19 Outbreak

In 2020, the COVID-19 pandemic spread around the world. In China, Hubei province was most affected by the outbreak.

Xtep donated RMB 20 million worth of supplies, including nearly 60,000 instant-drying clothes, jackets, and sports shoes to nearly 30,000 medical professionals who were working on the front line. In the cold weather, the winter outfits helped keep the medical professionals warm, and the breathable clothing alleviated the discomfort of excessive sweating due to the thick layers of protective gears.





# ENVIRONMENTAL MANAGEMENT

Sportswear manufacturing relies on numerous raw materials as key inputs for finished products. Sustainability concerns related to energy, climate change, water scarcity and material circularity are increasingly shaping the sourcing of raw materials, including cotton, rubber, and synthetic materials, used in products. The Group needs to actively explore the wider use of innovative alternative materials and better product designs to reduce the environmental impact of its products, while improving its brand reputation and developing new market opportunities.

Also, as the Group performs some of its manufacturing, it needs to closely monitor the resource consumption and emissions arising from its manufacturing processes. These factors have the potential to affect cost structures and damage the Company's reputation over time.

## 2020 Highlights



Generated **556,804 kWh** of solar electricity at our Hunan factory

Launched the **XTEP-ECO Platform** to drive sustainable product innovation





## ENVIRONMENTAL MANAGEMENT

### Sustainable Innovation

In the cycle of sportswear products, there are three main areas 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 lessen the environmental impact of our products throughout their cycles.

#### XTEP-ECO Platform


As an important step in promoting product sustainability, we launched our environmentally-friendly technology platform, the XTEP-ECO Platform, in June 2020. In the coming years, the platform will be the Group's key driver of green material innovation.

Together with the platform, we also launched the new product series of biodegradable XTEP-ECO windbreakers. The series makes use of a plant-derived material, polylactic acid (PLA), which is extracted from corn and straw and is completely biodegradable within one year under certain conditions. PLA's dyeing temperature is lower than general polyester fiber by 0-10°C, and the setting temperature is also 40-60°C lower. Hence, PLA also provides energy-saving benefits and reduces consumption. Compared with woven polyester fiber, PLA uses 100 kilograms less steam

per vat in the cloth dyeing process. We expect the full adoption of PLA in all apparel production to save the Group more than three million tonnes of steam each year and significantly lower production costs.

In the short term, the use of PLA will be one of the major focuses of the Ecological Chip Technology Platform. The Group is currently attempting to achieve additional breakthroughs in the application of the material in other products, with the aim of developing a full product line within three years. The Group plans to increase the proportion of PLA products within the chemical fiber categories in phases. In the coming three years, we plan to launch over one million PLA products on a quarterly basis in the market.



Conventional Polyester fiber	 <p>SOURCE</p> <p>MATERIAL PROPERTIES</p> <p>END-OF-LIFE</p>	PLA fiber
Petroleum product		Corn and straw extract
High dyeing and setting temperature		Lower dyeing and setting temperature resulting in 100kg steam saving per vat
Non-biodegradable		Completely biodegradable within one year under certain conditions



## ENVIRONMENTAL MANAGEMENT



### Recycled Collection

#### Introducing Different Green Materials

In addition to launching the XTEP-ECO platform and PLA products, we are also researching and developing environmentally-friendly products based on the needs of the market. Our current focuses include organic cotton, recyclable plant-based materials and biodegradable materials. Below are examples of the green materials and their applications.

#### Cotton

Cotton is one of the most commonly used crops in the textile industry and is also the main natural fiber 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 address these issues, we have been gradually introducing the use of cotton with less environmental impact in our apparel and footwear products, including the following sources:

We have plans to expand our line of organic cotton and recycled cotton yarn products and will launch several products made with organic cotton and recycled cotton yarn over the next two years.

#### Recycled materials

There has been a growing movement in the industry to utilize recycled material 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 2020, we launched footwear products under the Xtep and Palladium brands that feature shoe uppers made from recycled plastic bottles. We also launched the Palladium Organic Collection, which utilizes organic materials aligned with Global Recycled Standards, Global Organic Textile Standards, and OEKO-TEX Standard 100 guidelines.

After the successful launch of the recycled products, we continued to explore the possibility of utilizing 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

We planned for and launched several products that use biodegradable materials launched or in planning in 2020. These materials include biodegradable plant-based mesh fabric, eucalyptus fiber, PLA fiber and other plant-based materials. We expect to develop more products made from these materials by 2022.

#### Other materials

We are also 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”) fibers and combining the performance of paper and fabrics such as lightweight, water-proof, agility. Sneakers made of Tyvek® were launched in 2020.



Organic cotton certified by the Global Organic Textile Standard

Recycled cotton yarn



## ENVIRONMENTAL MANAGEMENT

### Resource Efficiency

#### Energy and Carbon Management

The use of energy is one of the key contributors to climate change, and we recognize that the sportswear industry has to promote responsible energy consumption to mitigate climate change and its effect on our planet. We are adopting various initiatives to improve energy efficiency in our operations.

At the Group's production facilities, we have adopted various measures to improve energy efficiency and reduce carbon emissions. In 2020, we upgraded the lighting in our production lines with more energy efficient models. All fluorescent light bulbs and light tubes were gradually replaced with LEDs, and LED light sensors were installed to automatically turn off idle lights. We also adjusted the lighting controls at our Quanzhou facility to better accommodate seasonal daylight changes and turn off unnecessary lighting and LED displays.

We also made efforts to adopt cleaner energy sources. Currently, all boilers at our production sites are running on natural gas, which has improved energy efficiency and reduced air pollution and greenhouse gas emissions. We also trialed the use of 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.

At our retail stores and headquarters, we focus on educating and motivating our employees to save energy. We regularly monitor electricity consumption at our stores and headquarters to identify abnormalities in a timely manner, and we have posted energy-saving guidance and internal communication materials such as posters to remind our employees of the Group's latest environmental policies and measures.



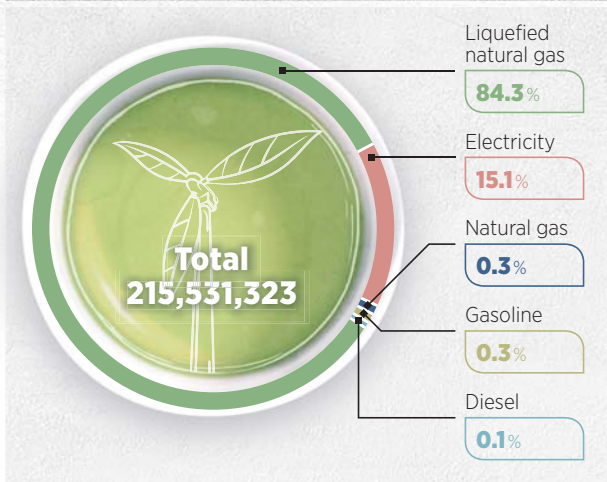
**556,804 kWh**  
of solar electricity generated at our Hunan factory



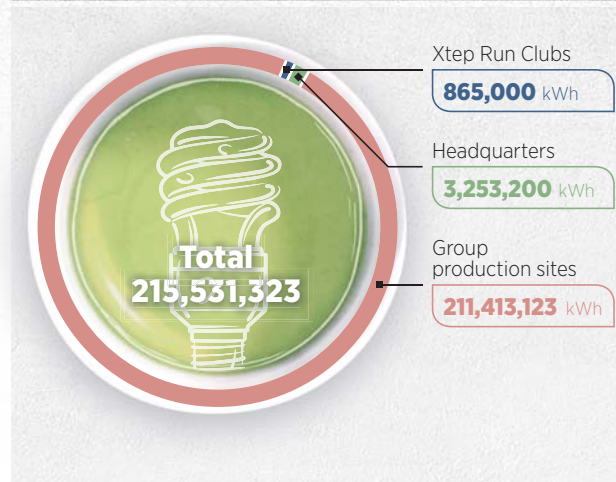
## ENVIRONMENTAL MANAGEMENT

### Energy Consumption

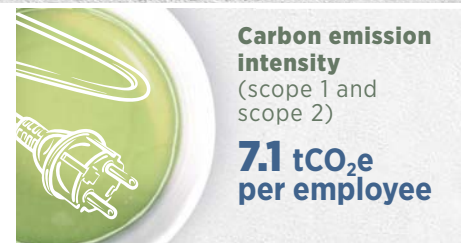
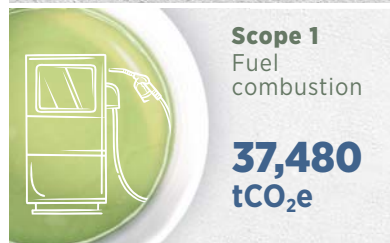
#### Energy Consumption Breakdown<sup>6</sup>



#### Energy Consumption by Location<sup>7</sup>



#### Carbon Emission from Energy Use



Energy Consumption in the Production Facilities	Unit	2018	2019	2020
<b>Electricity</b>	<b>kWh</b>	<b>25,471,006</b>	<b>25,031,357</b>	<b>28,317,171</b>
– Fujian Quanzhou main factory	kWh	14,604,590	11,590,205	15,375,683 <sup>8</sup>
– Fujian Jinjiang main factory	kWh	2,852,100	3,143,512	2,775,047
– Anhui factory	kWh	4,595,716	6,381,505	6,340,936
– Hunan factory	kWh	2,814,400	3,187,370	3,096,804
– Fujian Quanzhou Koling factory	kWh	604,200	728,765	728,701
<b>Natural gas</b>	<b>kWh</b>	<b>–</b>	<b>806,974</b>	<b>744,166</b>
<b>Liquefied natural gas</b>	<b>kWh</b>	<b>–</b>	<b>–</b>	<b>181,359,865<sup>9</sup></b>
<b>Gasoline</b>	<b>kWh</b>	<b>–</b>	<b>208,310</b>	<b>552,368<sup>10</sup></b>
<b>Diesel</b>	<b>kWh</b>	<b>–</b>	<b>103,609</b>	<b>155,360<sup>10</sup></b>

<sup>6</sup> Due to rounding percentage may not add up to 100%.

<sup>7</sup> The reporting scope is expanded with the following new data points: (1) Diesel and petroleum consumptions at Fujian Jinjiang main factory, Hunan factory and Fujian Quanzhou Koling factory; (2) electricity consumptions at the Xtep Run Clubs and Group headquarters; (3) liquefied natural gas consumptions at the factory cafeteria. Due to the expansion of reporting scope, previous year data are not disclosed here and direct year-on-year comparison is not advised.

<sup>8</sup> The increase was due to the production line expansion in 2020.

<sup>9</sup> New data disclosure in 2020.

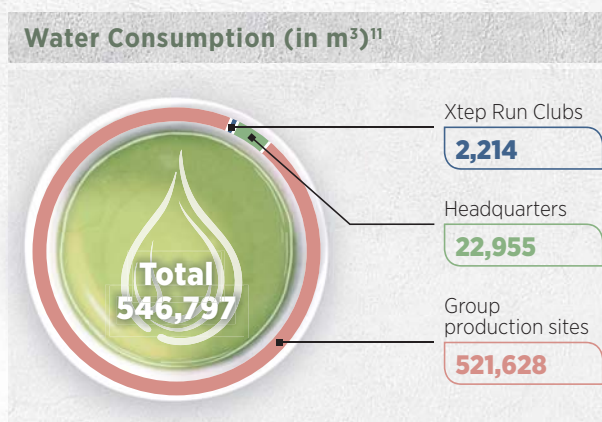
<sup>10</sup> The increase in petrol and diesel consumption was mainly due to the inclusion of fuel consumption at Anhui factory, Hunan factory and Fujian Quanzhou Koling factory.



## ENVIRONMENTAL MANAGEMENT

### Water Management

The majority of the Group's water consumption occurs during the production process and at its dormitories. We have put in place several measures to improve water efficiency at our factories and dormitories, including process improvements and water recycling and reuse measures. In 2020, we 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 subsequently consumption. In 2021, we will continue to upgrade the flushing control system at our employee dormitories to improve water efficiency.



Water Consumption in the Production Facilities	Unit	2018	2019	2020
<b>Water</b>	<b>m<sup>3</sup></b>	<b>455,850</b>	<b>429,271</b>	<b>521,628</b>
– Fujian Quanzhou main factory	m <sup>3</sup>	323,665	193,467	283,827 <sup>12</sup>
– Fujian Jinjiang main factory	m <sup>3</sup>	60,482	60,482	63,110
– Anhui factory	m <sup>3</sup>	24,160	117,118	105,735
– Hunan factory	m <sup>3</sup>	30,106	28,962	39,247
– Fujian Quanzhou Koling factory	m <sup>3</sup>	17,437	29,242	29,709

### Packaging Materials

Regarding our packaging materials, we introduced sustainable packaging into our current products to reduce our environmental impact in July 2020. As the first step, we have replaced the tags and quality certificates of the Xtep brand's apparel and accessory products.

Packaging Material Usage	Unit	Amount
<b>Packaging Material</b>	<b>tonnes</b>	<b>4,806.5</b>
Paper cartons and shoe boxes	tonnes	3,986.0
Plastic strips	tonnes	36.6
Plastic tapes	tonnes	31.5
Plastic bags	tonnes	752.5

<sup>11</sup> The reporting scope is expanded with the following new data points: (1) Water consumption of nine Xtep Rub Clubs; and (2) Water consumption of the Group's headquarters in Xiamen. Due to the expansion of reporting scope, previous year data are not disclosed here and direct year-on-year comparison is not advised.

<sup>12</sup> The increase was mainly due to the domestic water consumption arising from the self-quarantine period of workers who returned to work from other provinces.





## ENVIRONMENTAL MANAGEMENT

### Environmental Impact Management

We monitor the emissions and waste from our operations and seek to minimize our environmental impact through better emission and waste management. To systematically manage the environmental performance of our production sites, we implemented an ISO 14001-certified Environment and Occupational Health and Safety Management System in 2010 to promote continuous improvement in environmental management practices at our in-house production sites.

### Waste Management

In the environmental management system, we have set a goal of “zero chemical and explosion incidents”, and we are committed to fully complying with regulations in hazardous waste disposal. The most common hazardous wastes we produce during the manufacturing process 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 odor. For the limited hazardous waste that is 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.

As many of our workers live in the dormitories, there is a considerable amount of domestic waste generated each day. In managing general waste, we uphold the principles of reduce, reuse and recycle 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 for proper handling and disposal of general non-recyclable waste.

### Air Emissions and Wastewater Discharge

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, which has resulted in less air pollution and greenhouse gas emissions as well as 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 to a safe level 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.

# APPENDIX

## SEHK ESG Guide Content Index

Mandatory Disclosure Requirements		Section	Remarks
Governance Structure	<p>A statement from the board containing the following elements:</p> <ul style="list-style-type: none"> <li>(i) a disclosure of the board's oversight of ESG issues;</li> <li>(ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritize and manage material ESG-related issues (including risks to the issuer's businesses); and</li> <li>(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.</li> </ul>	ESG Governance	
Reporting Principles – Materiality	<ul style="list-style-type: none"> <li>(i) the process to identify and the criteria for the selection of material ESG factors;</li> <li>(ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.</li> </ul>	Reporting Framework	
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)	Reporting Framework	
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.	Reporting Framework	
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.	Reporting Boundary	



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	Environmental Impact Management
KPI A1.1	The types of emissions and respective emission data	Environmental Impact Management Air emissions data are not disclosed as it is not considered material to the Group.
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity	Resource Efficiency
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	-
KPI A1.4	Total non-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 A1.5	Description of emission target(s) set and steps taken to achieve them	Resource Efficiency, Environmental Impact Management Emissions and wastes are not considered to be the most material issues comparatively given the Group's business nature. While we put effort to reduce our negative environmental impact,
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.	Resource Efficiency, Environmental Impact Management currently specific targets with respect to these aspects are not defined. The Group reviews its operations and environmental performance on an ongoing basis and will consider setting and disclosing these targets as appropriate.

## APPENDIX

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	Resource Efficiency	
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Resource Efficiency	
KPI A2.2	Water consumption in total and intensity	Resource Efficiency	
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	Resource Efficiency	The Group is reviewing its operations and environmental performance in considering target setting on energy and water consumption.
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	Resource Efficiency	
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Resource Efficiency	
<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	Sustainable Innovation, Resource Efficiency, Environmental Impact Management	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them	Sustainable Innovation, Resource Efficiency, Environmental Impact Management	
<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	
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	



Subject Areas, Aspects, General Disclosures and KPIs		Section	Remarks
<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	Employment and Welfare	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Employment and Welfare	
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment and Welfare	
<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	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.	Health and Safety	
KPI B2.2	Lost days due to work injury	Health and Safety	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety	
<b>Aspect B3: Development and training</b>			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work.	Training and Development	
KPI B3.1	The percentage of employees trained by gender and employee category	-	
KPI B3.2	The average training hours completed per employee by gender and employee category	-	

## APPENDIX

Subject Areas, Aspects, General Disclosures and KPIs		Section	Remarks
<b>Aspect B4: Labor 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 labor	Supply Chain Management, Employment and Welfare	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor	Supply Chain Management, Employment and Welfare	
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Supply Chain Management, Employment and Welfare	
<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	Supply Chain Management	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	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	
<b>Aspect B6: Product responsibility</b>			
General Disclosure	Product Responsibility 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	Product and Service Quality	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product and Service Quality	



Subject Areas, Aspects, General Disclosures and KPIs		Section	Remarks
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Product and Service Quality	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product and Service Quality	
KPI B6.4	Description of quality assurance process and recall procedures.	Product and Service Quality	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product and Service Quality	
<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	
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	
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	Anti-corruption	
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption	
<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	Community Investment	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Community Investment	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Community Investment	

# APPENDIX

## Glossary

Board	The Board of Directors of Xtep International Holdings Limited
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 China or Mainland China	The People's Republic of China excluding, for the purpose of this ESG report, Hong Kong, Macau and Taiwan
Report	2020 Environmental, Social and Governance Report of the Group
RMB	Renminbi, the lawful currency of the PRC
Year	The year ended 31 December 2020



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