

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization that is open and accountable to the Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor for creating more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board, in order to optimize the returns for Shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2023, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code in force during the year, with the exception of code provision C.2.1 (chairman and chief executive).

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

COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2023.

CULTURE AND STRATEGIC PLANNING

Perseverance, innovation, integrity and mutual success are part of Xtep's DNA and the core values it embraces. Throughout the years, they are pivotal to the Group's success and its sound reputation as a top-notch sportswear brand with an extensive global distribution network in Asia-Pacific, North America and EMEA.

Governed by its multiple-brand and multiple-market strategy, Xtep aspires to become a world leading sportswear brand and a respected Chinese brand operator. Upholding the belief that sports promote health and wellbeing without any gender, age, or ethnic differences, Xtep made strategic efforts to continuously create high-quality sportswear products, and create value for stakeholders and the communities in which it operates. With an ambitious mission to elevate sports to the extraordinary, it strives to empower sports lovers through the relentless pursuit of excellence and innovation.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2023 and the date of this annual report, the Board is comprised of three executive Directors, one non-executive Director and three independent non-executive Directors.

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The followings are the members of the Board:

Executive Directors

Mr. Ding Shui Po (*Chairman and Chief Executive Officer*)

Ms. Ding Mei Qing

Mr. Ding Ming Zhong

Non-Executive Director

Mr. Tan Wee Seng

Independent Non-Executive Directors

Dr. Bao Ming Xiao

Dr. Wu Ka Chee, Davy

Dr. Chan Yee Wah

Among members of the Board, Mr. Ding Shui Po is the elder brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong. Save as disclosed herein, to the best knowledge of the Directors, there is no other financial, business or family relationship among the members of the Board.

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his/her position, and has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently. Biographical information of the Directors is set out in the section headed "Directors and Senior Management" of this annual report.

Meetings of the Board

Board meetings were held from time to time to discuss the business strategies of the Group, to monitor financial and operational performance, to approve the annual and interim results of the Group, and to discuss the corporate governance functions of the Board.

Directors may participate either in person or through electronic means of communications. The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2023 is set out below:

Name of Director	Attendance/Number of board meeting(s) held during a director's tenure	Attendance/Number of general meeting held during a director's tenure
Executive Directors		
Mr. Ding Shui Po	7/7	1/1
Ms. Ding Mei Qing	7/7	1/1
Mr. Ding Ming Zhong	7/7	1/1
Non-Executive Director		
Mr. Tan Wee Seng	7/7	1/1
Independent Non-Executive Directors		
Dr. Bao Ming Xiao	7/7	1/1
Dr. Wu Ka Chee, Davy	7/7	1/1
Dr. Chan Yee Wah	7/7	1/1

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All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. When queries are raised by Directors, steps would be taken to respond as promptly and as fully as possible. All Directors have the opportunity to include matters in the agenda of board meetings. Notices of at least 14 days of board meetings are given to the Directors and the board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Functions and Duties of the Board

The overall management of the Company's operations is vested in the Board. The Board carries out its functions according to the powers conferred upon it by the memorandum and articles of association of the Company which have been uploaded onto the websites of the Hong Kong Stock Exchange and the Company, and since the date of uploading, no significant change has been made.

The main functions and duties conferred on the Board include:

- management of the overall business and strategic development;
- deciding business plans and investment plans;
- convening general meetings and reporting to the Shareholders;
- exercising other powers, functions and duties conferred by the Shareholders in general meetings; and
- performing corporate governance duties in compliance with the terms of reference set out in the Corporate Governance Code.

The day-to-day management, administration and operations of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Directors may have access to the advice and services of the company secretary of the Company to ensure that the board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, seek independent professional advice under appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate, appropriate, independent and professional advice to the Directors to assist the relevant Directors in discharging their duties.

The Board is of the view that the following mechanisms adopted by the Company are effective in ensuring that independent views and inputs are available to the Board:

- The Board comprises a majority of non-executive Directors.
- In assessing suitability of the Director candidates, the Board will consider their profiles, including their character, experience, qualifications and time commitment; the Board will also consider the Board's overall composition and skill matrix as well as the Company's diversity policy.
- The Board will review each Director's time commitment to the Company's business annually.
- The Board will assess non-executive Directors' independence upon appointment and annually.
- Directors are required to abstain from voting in matters in which he has material interest.
- Directors can upon reasonable request seek independent professional advice at the Company's expenses to discharge their duties.

The quality of deliberations at meetings of the Board are reviewed during the annual evaluation of the Board's performance.

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Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgement to the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions; in particular, they bring an impartial view to issues relating to the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management to ensure that all interests of Shareholders are taken into account, and the interests of the Company and its Shareholders are protected.

The Board has three independent non-executive Directors in compliance with Rule 3.10(1) of the Listing Rules, which requires that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Dr. Chan Yee Wah, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors, representing more than one-third of the Board, in compliance with Rule 3.10A of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under code provision C.1.4 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following trainings with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2023:

Name of Director	Corporate Governance/Updates on laws, rules and regulations		Accounting/Financial/Management or other professional skills	
	Read materials	Attended seminars/briefings	Read materials	Attended seminars/briefings
Executive Directors				
Mr. Ding Shui Po	✓	✓	✓	✓
Ms. Ding Mei Qing	✓	✓	✓	✓
Mr. Ding Ming Zhong	✓	✓	✓	✓
Non-Executive Director				
Mr. Tan Wee Seng	✓	✓	✓	✓
Independent Non-Executive Directors				
Dr. Bao Ming Xiao	✓	✓	✓	✓
Dr. Wu Ka Chee, Davy	✓	✓	✓	✓
Dr. Chan Yee Wah	✓	✓	✓	✓

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Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Appointments and Re-Election of Directors

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service contract with the Company, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of three executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Tan Wee Seng had entered into a service contract commencing from 29 March 2010 and the contract continued to have full force upon his re-designation as a non-executive Director effective from 17 March 2022. Dr. Bao Ming Xiao had entered into a service contract with the Company for an initial term of two years commencing from 21 December 2012. Dr. Wu Ka Chee, Davy had entered into a service contract with the Company for an initial term of two years commencing from 7 May 2021. Dr. Chan Yee Wah had entered into a service contract with the Company with no fixed term commencing from 17 March 2022.

All the service contracts of non-executive Directors (including independent non-executive Directors) are automatically renewed upon expiration (for service contracts with fixed term) and may be terminated by either party with a three-month's prior written notice.

BOARD COMMITTEES

The Board has established the (i) Audit Committee, (ii) Remuneration Committee, (iii) Nomination Committee, and (iv) Sustainability Committee with defined terms of reference. The terms of reference of the board committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Hong Kong Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee was established on 7 May 2008, in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee consists of four members, namely, Dr. Chan Yee Wah, Mr. Tan Wee Seng, Dr. Bao Ming Xiao and Dr. Wu Ka Chee, Davy, the majority of whom are independent non-executive Directors. Dr. Chan Yee Wah, who has appropriate professional qualifications and experience in accounting matters, is the chairlady of the Audit Committee. None of the members of the Audit Committee have any financial interest in or is a former partner of the existing external auditor of the Company, Ernst & Young.

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The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, and oversee the risk management and internal control procedures of the Company.

During the year ended 31 December 2023, the Audit Committee mainly performed the following duties:

- reviewed the Group's audited annual results for the year ended 31 December 2022 and the unaudited interim results for the six months ended 30 June 2023, met with the external auditors to discuss such interim results and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;
- reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and
- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2023, two meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	Attendance/Number of Audit Committee meeting(s) held during a director's tenure
Dr. Chan Yee Wah	2/2
Mr. Tan Wee Seng	2/2
Dr. Bao Ming Xiao	2/2
Dr. Wu Ka Chee, Davy	2/2

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2023.

Remuneration Committee

The Remuneration Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee consists of three members, namely Dr. Wu Ka Chee, Davy, Ms. Ding Mei Qing and Dr. Bao Ming Xiao, the majority of whom are independent non-executive Directors. Dr. Wu Ka Chee, Davy is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of individual executive Directors, non-executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment).

During the year ended 31 December 2023, the Remuneration Committee mainly performed the following duties:

- reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors, non-executive Directors and senior management for the year of 2023; and
- reviewing matters relating to share schemes under Chapter 17 of the Listing Rules.

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During the year ended 31 December 2023, two meetings were held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	Attendance/Number of Remuneration Committee meeting held during a director's tenure
Dr. Wu Ka Chee, Davy	2/2
Ms. Ding Mei Qing	2/2
Dr. Bao Ming Xiao	2/2

Nomination Committee

The Nomination Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee consists of three members, namely, Mr. Ding Shui Po, an executive Director and the chairman of the Board, Mr. Tan Wee Seng, a non-executive Director and Dr. Wu Ka Chee, Davy, an independent non-executive Director. Mr. Ding Shui Po is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least once a year and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable director candidates and making such recommendations to the Board, the Nomination Committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships.

During the year ended 31 December 2023, the Nomination Committee mainly performed the following duties:

- reviewed the annual confirmations of independence submitted by the independent non-executive Directors and assessed their independence; and
- reviewed the structure, size and composition of the Board during the year of 2023.

The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

A "Nomination Policy" for Directors was formally adopted and this incorporated the nomination criteria and principles for Directors that are set out in the Nomination Committee's terms of reference. The Nomination Policy applies to the directors of the Company and where applicable, senior management prepared for Board positions under the succession planning of the Company.

The Nomination Policy aims to (i) set out the criteria and process in the nomination and appointment of directors of the Company; (ii) ensure that the Board of the Company has a balance of skills, experience and diversity of perspectives appropriate to the Company; and (iii) ensure the Board continuity and appropriate leadership at Board level.

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;

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- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Process

Appointment of New Director

- i. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.
- ii. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- iii. If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
- iv. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
- v. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of Director at General Meeting

- i. The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.
- ii. The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.
- iii. The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

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Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

During the year ended 31 December 2023, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meeting of the Nomination Committee is set out below:

Name of Director	Attendance/Number of Nomination Committee meeting held during a director's tenure
Mr. Ding Shui Po	1/1
Mr. Tan Wee Seng	1/1
Dr. Wu Ka Chee, Davy	1/1

Diversity

Board diversity

Pursuant to code provisions of the Corporate Governance Code, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Having implemented the Board Diversity Policy, we believe we have achieved gender diversity in respect of the Board: currently the Board comprises five (71.4%) males and two (28.6%) females, which is higher than the average of the listed issuers on the Stock Exchange in the consumer discretionary sector (based on "Board Diversity & Inclusion in Focus", the Stock Exchange repository). It is our goal to maintain female representation in the Board at a level that is not less than the average of listed issuers in Hong Kong in the same industry. The Company will continue to enforce and review our Board Diversity Policy. In particular, when the Board identifies potential Director candidates in the future, it will ensure that sufficient consideration will be given to gender diversity in light of the gender distribution of the boards of listed issuers on the Stock Exchange which operates in the same industry as the Company.

Workforce diversity

As at 31 December 2023, the Group had a total workforce of approximately 9,100 employees, of which 44% are males, and 56% are females. Among the senior management team of three members, 66.7% (two) are males and 33.3% (one) is female.

While we believe our future employee recruitment should predominantly be merit-based and do not consider it appropriate to set any target gender ratio for our workforce, we recognize and embrace the benefits of having a diverse workforce, and will continue to enhance the diversity of our workforce, subject to availability of suitable candidates.

Sustainability Committee

The Sustainability Committee was established on 1 January 2021 and consists of four members, namely Mr. Tan Wee Seng, Mr. Ding Shui Po, Ms. Ding Mei Qing and Dr. Chan Yee Wah, the majority of whom are executive Directors. Mr. Tan Wee Seng is the chairman of the Sustainability Committee.

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The primary duties of the Sustainability Committee are to assist the Board in overseeing the Company's Environmental, Social and Governance ("ESG") initiatives. Supported by the Sustainability Working Group which comprises the heads of various business and operations units, the Board-level Sustainability Committee oversees the ESG management approach, the implementation progress of the ESG initiatives, the achievement of the KPIs that are set out under our long-term sustainability plan and communicates all ESG-related issues to internal and external stakeholders. It also monitors the Company's sustainability and ESG information reporting and disclosure in annual ESG report and advises the Board on all the matters in the applicable code provision(s) of the ESG Reporting Guide (Appendix C2) of the Listing Rules.

During the year ended 31 December 2023, two meetings were held by the Sustainability Committee. The attendance record of each member of the Sustainability Committee at the meetings of the Sustainability Committee is set out below:

Name of Director	Attendance/Number of Sustainability Committee meeting held during a director's tenure
Mr. Tan Wee Seng	2/2
Mr. Ding Shui Po	2/2
Ms. Ding Mei Qing	2/2
Dr. Chan Yee Wah	2/2

AUDITOR'S REMUNERATION

The Company has re-appointed Ernst & Young as its external auditor during the year ended 31 December 2023. The external auditor is refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	RMB
Review of interim results	876,000
Annual audit services	6,042,000
Other services	50,000
Total	6,968,000

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flows of the Company and its subsidiaries for that financial year. The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group. As at 31 December 2023, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditor for the audit of the consolidated financial statements, are set out in the section headed "Independent Auditor's Report" in this annual report.

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RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness on an ongoing basis.

The risk management and internal control systems of the Group are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The Group's risk management and internal control system are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of risk management and internal controls systems. The Company also has a process for identifying, evaluating, and managing the significant risks associated with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2023. The day-to-day operations are entrusted to individual departments, which are accountable for their own conducts and performance, and are required to strictly adhere to the policies set by the Board. The Company carries out reviews of the effectiveness of the risk management and internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

In addition, the procedures on disclosure of inside information were in place to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding risk management and internal control systems in general for the year ended 31 December 2023.

Objectives

The Board acknowledges its overall responsibility for overseeing the Group's risk management and internal control systems and ensures that a review of their effectiveness on ongoing basis. The Board has delegated and authorized its responsibilities of risk management to the Audit Committee, which is responsible for assisting the Board to evaluate and determine the nature and extent of the risks that the Group is willing to take to achieve its business strategic objectives and to ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems and oversees the design, implementation and supervision of risk management and internal control systems. The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to meet its business strategic objectives and to provide a reasonable, but not absolute, assurance against material misstatement or loss.

The management has confirmed to the Audit Committee and the Board that risk management and internal control systems were effective for the year ended 31 December 2023.

Main Features of the Risk Management and Internal Control Systems

The Company has established a risk governance organization structure with clear responsibilities and authorities.

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Risk Governance Organization Structure



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

(a) Board

It determines the business strategic objectives of the Group, and evaluates the nature and extent of the risks that the Group is willing to take to achieve the strategic objectives of the Group. It also ensures that the Group appropriately and effectively establishes and maintains risk management and internal control systems and oversees the overall design, implementation and supervision of risk management and internal control systems.

(b) Audit Committee

It is responsible for supervising and guiding the risk management and internal audit department and the management to establish and operate the internal control systems, regularly supervising the Group's risk management and internal control systems, and making recommendations to the Board. The risk management and internal control systems are reviewed, at least annually, for its effectiveness and the review includes all major aspects of control, including financial, operational and compliance controls.

During the annual review, it ensures the effective risk management and internal control systems have the adequacy of resources, budget, adequate staff qualifications and experience and staff training programs of the Group's accounting, internal audit and financial reporting functions.

(c) Risk Management and Internal Audit Department

It assesses the effectiveness and adequacy of the Group's risk management and internal control systems and reports the findings to the Audit Committee for improvement of the identified control weaknesses or material systems deficiencies.

(d) Management

It is delegated and authorized to (i) design, implement and maintain risk management and internal control systems appropriately and effectively; (ii) identify, evaluate, manage and control the risks that may have potential and material impacts on the processes of the operations; (iii) monitor risks and take appropriate methods to mitigate risks; (iv) respond promptly to and follow up the findings of the risk management and internal control issues raised by the risk management and internal audit department; and (v) provide confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems.

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Process for Identification, Assessment and Management of Material Risks

The processes used by the Group for identification, assessment and management of material risks are summarized as follows:

Risk Identification: Identifies risks that may potentially and materially affect its strategies, business, operations and finance.

Risk Evaluation: Evaluates the identified risks by using the designated risk assessment criteria developed by the management; and evaluates the potential impacts and the likelihood of their occurrence.

Risk Response: Prioritizes the material risks by comparison of the risk assessment results; and determines the risk control strategies and internal control processes to avoid, prevent or mitigate the identified risks.

Risk Reporting and Monitoring: Discusses about the results of risk management to the Board, the Audit Committee and the management regularly; continuously monitors the identified risks and ensures that internal control system processes appropriately; and reassesses the risk control strategies and internal control processes in case of any material changes in business and the external environment.

Process Used to Review the Effectiveness of the Risk Management and Internal Control Systems

During the year ended 31 December 2023, the Board and the Audit Committee have conducted annual review of the effectiveness of the Group's risk management and internal control systems on all major operations of the Group, with assistance from the Group's Audit Committee, risk management and internal audit department and the management. The Group's risk management and internal audit department has reported major risk management and internal control review findings to the Audit Committee. The Board considered that all recommendations from the Audit Committee will be properly followed up to ensure that the effectiveness of risks control and proper internal control systems.

Annual Review

A comprehensive review on the effectiveness of the Group's risk management and internal control system is conducted by the Board and the Audit Committee annually, covering all material controls including financial, operational and compliance monitoring.

The Group has conducted regular review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2023. The Board and the Audit Committee discussed the risk management and internal control systems with management, which includes the adequacy of resources, staff qualifications and experience, training programs and budget to the Group's accounting, internal audit and financial reporting function, to ensure that management has performed its duty to have effective systems. The Board and the Audit Committee also considered the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of the risk management and internal audit department.

During the year ended 31 December 2023, the Board and the Audit Committee considered that the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and considered that the risk management and internal audit department and the management are competent to carry out their roles and responsibilities. In accordance with such results, the Board and the Audit Committee are of the view that the Group has adequate workforce to satisfy with accounting and financial reporting duties and to comply with the Listing Rules. The Board and the Audit Committee also discussed the extent and communication of monitoring results annually to enables for the assessment of the Group's control and the effectiveness of risk management.

CORPORATE GOVERNANCE REPORT

In the annual review, the Group's risk management and internal control system is subject to continuous review and improvement to enable timely responses to any changes of risks facing by the Group. The Board and the Audit Committee have considered major findings on risk management and internal control matters from the risk management and internal audit department and the management. No material control failure or weaknesses to the extent that have resulted in unforeseen outcomes or contingencies in the future which may have material impacts on the Group's financial performance or conditions have been identified by the Group.

The Board confirms that the Group has complied with provisions of the Corporate Governance Code regarding risk management and internal control systems for the year ended 31 December 2023. The Group therefore considers that the risk management and internal control systems are effective and adequate.

Internal Audit Function

The Group's internal audit function is performed by its risk management and internal audit department, which plays an important role in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports regularly. The Board and the Audit Committee considered that the risk management and internal audit department had been provided with adequate resources and budget and comprised qualified staff with sufficient experience and training programs to perform its internal audit function. For the year ended 31 December 2023, the risk management and internal audit department implemented the internal audit functions and reports findings regularly to the Audit Committee, which makes recommendations based on the findings to the Board.

Anti-corruption and Whistle-blowing

We have adopted an anti-corruption policy which sets out the professional and ethical standards for our employees to observe in all business dealings. Our employees are made aware of the Group's "Anti-fraud complaints reporting management system" and the "Code of integrity", which details our anti-corruption requirements concerning relevant national policies such as the "Basic Norms for Internal Control" and "Guidelines for Application of Enterprise Internal Controls" published by the Chinese government. To raise staff awareness regarding anti-corruption topics, we organized anti-corruption training for new joiners in 2023 to build a culture of integrity among them. The training was also recorded and provided to employees in an e-learning format. In addition, all suppliers are required to comply with our supplier code of conduct to ensure that they are fully aware of the Group's requirements.

The Group is committed to achieving and maintaining the highest possible standards of openness, integrity and accountability. To prevent as far as possible violations and ensure compliance and operation by the highest ethical standards, the Group has designated specific whistle-blowing policies to allow employees, business partners and other relevant stakeholders to report illegal or non-compliant activities involving the Group to the risk management and internal audit department and the Audit Committee confidentially. The identity of the whistle-blower and the relevant records of the whistle-blowing are treated with the strictest confidentiality.

Inside Information and Information Disclosure

The Group has established a policy for ensuring that inside information is disclosed to the public in an equal and timely manner in compliance with the relevant laws and regulations. The policy regulates the handling and dissemination of inside information, including designates specific persons to be the main spokesperson of the Group to respond to external enquiries; designates reporting paths to facilitate each party to give an account of potential inside information to the designated responsible personnel; and designates responsible persons and departments to make decision about further actions to be taken and the ways to be disclosed.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The company secretary of the Company is Mr. Yeung Lo Bun, whose biography details are set out in the section headed “Directors and Senior Management” in this annual report.

Mr. Yeung has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he has confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2023.

SHAREHOLDERS’ RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting and to Put Forward Proposals at Shareholders’ Meeting

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries May Be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board’s direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

INVESTOR RELATIONS

Constitutional Documents

In 2023, the Board proposed to make amendments to the Company’s articles of association and to adopt the amended articles of association in order to bring the articles of association of the Company in line with the relevant requirements of the Listing Rules on shareholder protection for overseas issuers which came into effect on 1 January 2022, to enable attendance of the general meeting of members of the Company by way of electronic or hybrid meetings and to make certain other housekeeping improvements. A special resolution of the shareholders was passed at the annual general meeting held on 2 June 2023 to approve the amendments to the articles of association of the Company and the adoption of the amended and restated articles of association of the Company with effect from the same date.

Please refer to the AGM circular of the Company dated 17 April 2023 for details of the amendments to the Company’s articles of association.

The amended and restated articles of association of the Company have been published on the Company’s website (www.xtep.com.hk) and the Stock Exchange’s website (www.hkexnews.hk).

CORPORATE GOVERNANCE REPORT

Shareholders' Communication Policy

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and its investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.xtep.com.hk. The Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. At the general meeting, separate resolutions are proposed to resolve each substantially separate issue.

We also adhere to the highest standard of investor relations management and strive to maintain a long-term stable relationship with shareholders and investors. Through multiple physical and virtual channels, we timely disseminate accurate and comprehensive information about the Group to investors with the aim of engaging in an effective and bidirectional communication with them. Meanwhile, we uphold an open and candid attitude to listen to the views from the capital market and relay the feedback to our senior management and Board of Directors regularly. The Board of Directors and senior management have shown tremendous support for the investor relations program. Together with the investor relations team, they have participated heavily in the communication with the capital market and have frequently attended investor events to maintain an open dialogue with both local and overseas investors.

Please also refer to the Investor Relations Report in this Annual Report for the review of the implementation and effectiveness of our shareholders' communication policy conducted during the year.

Dividend Policy

On 19 February 2019, the Board has approved and adopted a dividend policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements, future business growth and its shareholding value.