



Xtep Group Co., Ltd.

Anti-fraud Management System

## 1. Purpose

This system is hereby formulated in accordance with the Basic Norms of Enterprise Internal Control and the Supporting Guidelines jointly promulgated by the Ministry of Finance of People's Republic of China and four commissions based on the company's conditions. The purpose of this system is to create an open, fair, and honest corporate culture; continue to strengthen corporate governance and internal control; set up and improve a set of mechanisms for effective supervision and restriction in the company; prevent, discover, and address acts that damage the company; reduce risks the company is exposed to; and promote sound and steady development of the company.

## 2. Scope

This policy is applicable to all operations of Xtep Group Co., Ltd. ("Xtep Group").

## 3. Definitions

Serial No.	Term	Definition/Explanation
1	Business partner	All businesses and individuals engaged in commercial activities with the company, including but not limited to suppliers, lessors, service providers, agents, and dealers of all levels as well as their affiliates.
2	Employee's relatives	① Parents, spouse, children, siblings, grandparents, and grandchildren; ② The siblings of parents and spouse; ③ The spouse/children of persons mentioned in ① and ②, spouse's parents, spouse/children of siblings, and children's spouse
3	Fraud	The act of employing unlawful means such as deception and bribery by the company's staff members (including the management, the governance body, and employees) and external persons to seek improper or illegal gains or deliberately damage the company's interest.

## 4. Division of Anti-fraud Responsibilities

### 4.1. Regulation Body and Duties

- 4.1.1. The board of directors: the highest leadership body for anti-fraud work, responsible for promoting and supervising the management to build an anti-fraud system, foster anti-fraud culture, and create and improve an internal control system to prevent fraud.
- 4.1.2. Chairman of the board (president of Xtep Group): the highest leader over investigations and handling of fraud cases and the direct leader of the standing anti-

fraud regulation body.

4. 1. 3. Risk Control and Audit System: the standing anti-fraud managing body, responsible for creating and improving the company's anti-fraud process and control system including fraud prevention and fraud risk evaluation as well as their effective implementation; coordinating fraud investigations; accepting and investigating fraud cases, verifying the authenticity and completeness of relevant materials, and ensuring the legitimacy and compliance of the treatment of cases; archiving whistleblowing materials, investigation materials, treatment records, and reports. By considering the severity of a fraud case, the Risk Control and Audit System may turn it over to the judicial authorities to hold involved persons liable after the president approves thereof.
4. 1. 4. Other departments: assisting in anti-fraud work.
4. 1. 5. All levels of managers in the company: cooperating with fraud investigations related to their duties, effectively implementing control procedures to prevent fraud, and assuming management responsibility for their subordinates' fraud.
4. 2. All units and departments of Xtep Group shall duly report any fraud to the Risk Control and Audit System if they discover any such acts, and the Risk Control and Audit System may authorize relevant units to conduct self-inspection as appropriate.
4. 3. For those cases that the Risk Control and Audit System authorizes self-inspection, the authorized units shall determine a self-inspection scheme and timeframe with the Risk Control and Audit System; report the investigation progress to the Risk Control and Audit System regularly; and submit the investigation results, relevant materials as evidence, and treatment scheme. The Risk Control and Audit System shall review and approve the submitted materials based on its authority and publish the treatment results as appropriate.
4. 4. All employees shall observe all rules, systems, and codes of conduct of the company as well as concerned national and industrial laws and regulations. Any discovered fraud shall be reported to the Risk Control and Audit System in time.

## **5. Details of Fraud**

5. 1. Employees and their relatives having any kind of financial dealings with the company's business partners and their affiliates, including but not limited to:
  5. 1. 1. Direct and indirect exaction, taking bribes, or receiving kickbacks in any form, including but not limited to the following:
    - ① Physical: Cash and cash equivalents, gift money, negotiable securities, physical stuff, and other effects given otherwise from business partners and their affiliates. If it is impossible to reject and have to accept the gift money and gifts from business partners and their affiliates, relevant provisions of the Regulations on Handing in Gift Money and Gifts shall be followed.

- ② Intangible: Business opportunities, career opportunities, education and overseas study opportunities, and life facilities (including free housing, transportation vehicles, and communication devices as well as use rights thereof obtained at unfair prices) from business partners and their affiliates.
5. 1. 2. Employees and their relatives having other financial dealings with the company's business partners and their affiliates, including but not limited to loan offerings, investments, charges, guarantees, business dealings, profit sharing, and commissions.
5. 2. Participating in recreational activities, receptions (except light working meals within the budget of 50 yuan per person), tours, meetings held in tourist attractions, and other consumption organized by business partners and their affiliates without prior written approval.  
(Approval requirements: Managers and other employees under this level shall obtain the approval of the director; directors shall obtain the approval of the competent vice president; and vice presidents and immediate directors shall obtain the approval of the president.)
5. 3. Embezzling or appropriating the company's assets in any form or illegally using the company's assets to seek improper benefits or damage the company's legitimate interest, including but not limited to:
5. 3. 1. Forging or altering business records or documents, fabricating or falsifying transactions and events, and extracting the company's assets.
5. 3. 2. Embezzling the company's assets through inadequately monitored links discovered in work.
5. 3. 3. Appropriating the company's assets for personal use or other purposes unrelated to work.
5. 3. 4. Seeking illegitimate benefits for oneself or others by taking advantage of the authority from their positions.
5. 4. Generating gains for oneself or others by dishonest means, including but not limited to:
5. 4. 1. Providing false information or meaning to conceal the truth; forging, falsifying, hiding, or destroying business documents, causing the company to pay or assume debts for false transactions or events.
5. 4. 2. Forging or altering business records or documents or using false business data to gain bonuses or incentives from the company, relevant policy supports, and reduction or immunity of penalties.
5. 4. 3. Fabricating performance, including but not limited to using false projects, overstated customer needs, and dual contracts to enhance one's performance; misusing accounting policies or accounting estimates; manipulating the recognition time of revenue, costs, and expenses to adjust one's performance indicators.

- 5.4.4. Issuing invoices without real sales or issuing invoices with a higher amount than the real sale to seek gains or benefits.
- 5.5. Employees and their relatives forming any kind of business dealings with the company, including but not limited to the purchase, sale, or disposal of assets (except for the company's products for personal use); provision or acceptance of services; lease of assets or equipment; joint research on or development of projects; signing of license agreements; gifting or concluding any non-monetary transactions; making an employee and his or her relatives become the company's business partners or form any dealing relationships.
- 5.6. Employees and their relatives have any related activities with the company's business partners and their affiliates, including but not limited to:
  - 5.6.1. Investing in the company's business partners and their affiliates or obtaining "free shares" therefrom; conducting closed and unfair operations or exchanges of benefits with business partners and their affiliates in relation to business referral, price negotiation, contract signing, order arrangement, acceptance of goods and reconciliation, and settlement of payment for goods, to gain personal benefits or damage the company's interest.
  - 5.6.2. Carrying out transactions with a company one has a stake in or a company that one's relatives, schoolmates, or other associated persons have a stake in or work for (including using the authority from one's position to facilitate transactions between another person and the related organization). Any special condition shall be declared pursuant to the interest declaration system and requires approval of the company after evaluation.
  - 5.6.3. Privately carrying out paid intermediary activities with business partners and their affiliates without the formal consent of the company.
  - 5.6.4. Taking up part-time jobs at and receiving part-time job salaries, benefits, kickbacks, and other compensation from the company's business partners and their affiliates or other organizations in the same industry without the formal consent of the company.
- 5.7. Leaking or giving away the company's trade secrets or technical secrets, including but not limited to:
  - 5.7.1. Taking advantage of known or mastered inside information, including confidential information such as business, technology, data, and passwords, to seek personal benefits or direct others to gain benefits.
  - 5.7.2. Damaging the company's interest by using the company's loopholes and deficiencies in e-commerce technology or information technology.
- 5.8. Employing improper PR means involving prostitution, gambling (including activities of gambling nature such as playing cards and mahjong), and drugs.

- 5.9. Other fraud that can damage the company's interest, including but not limited to:
  - 5.9.1. Providing a guarantee in the company's name, conducting various gain-pursuing activities, and giving written or verbal undertakings to customers and business-related organizations without authorization and approval or beyond the authorized limit.
  - 5.9.2. Transferring to others or oneself transactions and events from which the company could make a profit normally.
  - 5.9.3. Failure to faithfully declare benefits in accordance with the company's regulations.
  - 5.9.4. Other acts identified by the company as fraud.

## **6. Whistleblowing Channels for Fraud, Investigations, and Reporting**

- 6.1. Fraud may be reported via emails, text messages, written letters, and WeChat. Contacts for whistleblowing will be published on the company's website, the internal publication, and the bulletin board. Whistleblowing channels are listed as follows.

Mailing address: Risk Control and Audit System, 7/F, Xtep Operation Center, 89 Jiayi Road, Siming District, Xiamen City, China

Whistleblowing email: [audit@xtep.com.cn](mailto:audit@xtep.com.cn)

WeChat account: XTEP-LIANJIE (廉洁特步)

Only the person in charge of the Risk Control and Audit System may open whistleblowing channels. The person in charge shall regularly check the email to collect whistleblowing information. The Risk Control and Audit System will organize independent investigations (or joint investigations with relevant departments) after receiving whistleblowing information and will report the investigation progress to the president.

- 6.2. Any investigator who has kinship or interest relations with the whistleblowee shall recuse from the investigation.
- 6.3. For real-name whistleblowing, the Risk Control and Audit System shall provide the investigation results or the reason for not filing a case for investigation to the whistleblower. For anonymous whistleblowing, if the whistleblowing materials are detailed and accurate, the Risk Control and Audit System shall file the case for investigation.

## **7. Incentives, Penalties, and Improvement**

- 7.1. The Risk Control and Audit System and insiders have the responsibility to keep whistleblowing information and investigations related to whistleblowing confidential. Anyone who has caused whistleblowing information to leak out will be subject to penalties according to the Incentives and Penalties System, depending on the case.
- 7.2. For any report of taking bribes, receiving kickbacks, seeking illegitimate benefits, or

other fraud, the company, after verifying the report, will reward the whistleblower with a sum of incentive at a minimum of 1000 yuan without upper limit. The incentive will be distributed to the whistleblower directly by the president of Xtep Group and the identity of the whistleblower will remain confidential.

- 7.3. Any employee who has been proved to have conducted fraud will be punished by the company pursuant to this system and the Incentives and Penalties System. The Risk Control and Audit System will propose punishments based on the above two systems, which will be handed over to relevant departments for execution. If financial penalties and indemnity are involved, they will be handed over to the finance system for execution. If personnel affairs are involved, they will be handed over to the human resources system for execution. If it is necessary to submit the case to the judicial authorities, the Risk Control and Audit System will do this.
- 7.4. When a fraud case occurs in the company, the management shall take remedies based on investigations of the fraud case and the treatment report. Remedies shall include an evaluation and improvement proposal of the current internal control.

## **8. Prevention and Control of Fraud**

- 8.1. The company advocates honesty and integrity as corporate culture and has tried to create a clean cultural environment in the company.
  - 8.1.1. The management of the company shall lead by example and lead the way in complying with the company's code of conduct, ethical norms, national laws and regulations, and industrial rules with practical actions.
  - 8.1.2. The Risk Control and Audit System will work with all departments to effectively publicize and implement the company's anti-fraud policies, procedures, and measures in the company in multiple ways, including but not limited to incorporating them into the employee handbook, publishing them on the company's website, the internal publication, or posts in the bulletin board.
  - 8.1.3. The Risk Control and Audit System will collaborate with all departments to provide training on anti-fraud and moral education on integrity for employees.
  - 8.1.4. The Risk Control and Audit System will collaborate with all departments to lay down and implement effective education and punishment measures for immoral and dishonest acts.
- 8.2. After this system comes into force, all incumbent employees shall sign the Employee's Undertakings on Integrity and Self-discipline. All new employees shall sign the Employee's Undertakings on Integrity and Self-discipline upon entry to make commitments on their duty conduct. All incumbent employees shall make a statement on their compliance with their undertakings on integrity and self-discipline regularly.
- 8.3. After this system comes into force, all business departments of the company shall sign

the Agreement on Good Faith in Business Cooperation with all business partners annually in conjunction with the annual contracts.

## **9. Supplementary Provisions**

The company reserves the rights of final interpretation and revision of this system. This system shall take effect from the date of publication.

## **10. Annexes**

Annex 1 Employee's Undertakings on Integrity and Self-discipline

Annex 2 Agreement on Good Faith in Business Cooperation





THANKS  
FOR  
READING