



Xtep International Holdings Limited

Incorporated in the Cayman Islands with Limited Liability (HKSE Stock Code: 1368)

Xtep Announces Strategic Divestiture of K-Swiss and Palladium and Enhanced Financial Structure

Unlocking Value and Focusing on Core Strengths of the Professional Sports Segment

9th May 2024, Hong Kong – Leading PRC-based professional sportswear enterprise **Xtep International Holdings Limited** (the “Company”, together with its subsidiaries, the “Group” or “Xtep”) (Stock code: 1368.HK) today announced the strategic divestiture of its wholly owned subsidiary KP Global Investment Limited (“KP Global”), which owns the K-Swiss and Palladium brands, as well as a series of financing instrument restructuring exercises aimed at optimizing its portfolio and strengthening its core business operations.

Strategic Divestiture and Privatization of Underperforming Assets

Xtep has entered into a definitive agreement with its controlling shareholder Ding Shui Po and his family for the sale and privatization of KP Global. The transaction, valued at US\$151 million, is based on the book value of KP Global as at 31 March 2024. This move is designed to carve out the consistently underperforming segment from Xtep’s portfolio, allowing the Company to concentrate its resources on developing its highly profitable brands – core Xtep brand, Saucony, and Merrell.

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, commented, “The decision to divest and privatize the KP Global followed an exhaustive review of our business strategy and financial objectives. After acquiring the KP Global for US\$260 million in mid-2019, we faced three years of pandemic-related disruptions and an economic slowdown in China, which led to reduced consumer spending and adversely affected the KP Global’s performance. This strategic divestiture will eliminate the ongoing impact on Xtep’s profitability and cash flows attributable to the loss incurred by the KP Global. It is also designed to enhance shareholder value, coupled with a proposed special cash dividend distribution of US\$151 million, pending shareholder approval at the forthcoming Extraordinary General Meeting.”

Enhanced Financial Structure and Future Growth Prospects

In conjunction with the divestiture, Xtep has negotiated a supportive arrangement with Hillhouse Capital (“Hillhouse”). This includes the redemption of a US\$65 million convertible bond issued by KP Global to Hillhouse in 2021, and the issuance of a new, 6-year HK\$500 million convertible bond by Xtep at an annual coupon rate of 3.5% with a conversion price of HK\$5.5 per share to Hillhouse. Additionally, Hillhouse will retain an option to repurchase 20% of KP Global’s shares for US\$65 million within the next five years, reflecting its confidence in the future potential of the brands under private ownership.

To streamline the financial arrangement, KP Global will issue an 8-year convertible bond valued at US\$154 million to Xtep. This bond corresponds to KP Global’s total accumulated losses since the acquisition in 2019 combined with the value of the capital investment and working capital as of the end of March 2024. It features

an annual interest rate of 3.5%, which is consistent with the rate that Xtep offered to Hillhouse. Xtep is granted the right, over the next eight years, to convert this bond into a 30% equity stake in KP Global.

These financial maneuvers are structured to stabilize Xtep's financial health by optimizing debt structure and strategically allocating capital towards profitable growth opportunities. The restructuring will pave the way for KP Global's potential success as a private entity, while still allowing Xtep and its shareholders to benefit indirectly from future successes.

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The special dividend coupled with Xtep's strategic reorientation deliver immediate financial benefits to shareholders and sets the stage for sustained profitability and growth. The restructuring will also lead to an elimination of losses incurred by KP Global at Xtep, with an expected improvement in profitability over the next two years and beyond. The business structure will be streamlined, focusing on running: the core Xtep brand targets the mass market; Saucony caters to the high-end sophisticated customers; and Merrell specializes in trail running and outdoor activities, enhancing synergy among these brands.

Besides, the strong cash flows generated by the core Xtep brand will support the future development of both Saucony and Merrell. Additionally, if KP Global achieves success and manages to go public independently, shareholders of Xtep will benefit from KP Global's achievements.

"We are confident that these decisive actions will streamline our operations, enhance our profitability, and create a stronger, more focused Xtep. We are laying the groundwork not just for recovery but for a new phase of dynamic growth," added Mr. Ding.

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About Xtep International Holdings Limited

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 in 2008. The Group principally engages in the design, development, manufacturing, sales, marketing and brand management of sports products covering footwear, apparel and accessories for adults and children. With a diverse brand portfolio encompassing the core Xtep brand, K-SWISS, Palladium, Saucony and Merrell to strategically target the mass market, athleisure and professional sports segments, the Group has an extensive global distribution network and more than 8,500 stores in Asia-Pacific, North America and EMEA.

Xtep is a constituent of the MSCI China Small Cap Index and Hang Seng Composite Index Series, and is an eligible stock under the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect. For more information, please visit Xtep's corporate website: www.xtep.com.hk or scan the Group's Wechat QR code below.



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