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Xtep International Holdings Limited

特步國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

**INSIDE INFORMATION
ISSUE OF US\$65,000,000 ZERO COUPON
PERPETUAL CONVERTIBLE BONDS
BY A WHOLLY-OWNED SUBSIDIARY**

This announcement is made by the Company pursuant to Rule 13.09(2)(a) of the Listing Rules and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

ISSUE OF CONVERTIBLE BONDS

The Directors are pleased to announce that on 15 June 2021, Xtep Global, a direct wholly-owned subsidiary of the Company which owns the “K-SWISS” and “Palladium” brands, entered into the Subscription Agreement with the Investor, pursuant to which the Investor has conditionally agreed to subscribe for and Xtep Global has conditionally agreed to issue the Convertible Bonds at an aggregate principal amount of US\$65,000,000 with zero coupon. Completion is subject to the conditions precedent as set out in the Subscription Agreement.

Upon full conversion of the Convertible Bonds at the Conversion Price, a total of 15,000 Conversion Shares will be issued, representing approximately 25% of the issued share capital of Xtep Global upon issue of the Convertible Bonds and 20% of the issued share capital of Xtep Global as enlarged by the issue of the Conversion Shares. Upon full conversion of the Convertible Bonds, the Company's equity interest in Xtep Global will be reduced to approximately 80% and Xtep Global will become a non wholly-owned subsidiary of the Company.

The gross proceeds from the Subscription will be US\$65,000,000. Xtep Global intends to apply the net proceeds from the Subscription as the general working capital of Xtep Global Group.

Completion of the Subscription Agreement is subject to fulfilment of the conditions precedent thereunder. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

INTRODUCTION

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The Subscription Agreement

Date: 15 June 2021

Parties: (i) Xtep Global, as the issuer
(ii) the Investor, as the subscriber

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Investor and its ultimate beneficial owners are an Independent Third Parties.

Principal amount: An aggregate principal amount of US\$65,000,000 to be payable in full immediately upon Completion.

Conditions precedent to the Subscription

Completion of the Subscription Agreement shall be subject to and conditional upon, among others, the conditions precedent to each of the Investor and Xtep Global being satisfied prior to or simultaneously at Completion, any of which may be waived by the Investor or Xtep Global respectively.

Completion

Completion shall take place on or before the tenth (10th) Business Day following the satisfaction or waiver of the above conditions precedent or on such other date as may be agreed in writing by the parties.

Investors' Agreement

As part of the Transaction Documents, the Company, Xtep Global and the Investor will also enter into the Investors' Agreement on or before Completion to define their rights and obligations with respect to Xtep Global, including but not limited to, the business, board and shareholders, reserved matters of certain corporate matters to the Investor, right to financial and other information of the Company and the Investor, dividend policy, transfers of shares and securities of Xtep Global and pre-emption rights of the Investor, etc.

In particular, it shall be agreed that for as long as the Investor and/or its affiliates (as defined under the Investors' Agreement) hold 100% of the Convertible Bonds and the Conversion Shares or less than 100% of the Convertible Bonds and the Conversion Shares resulted from any permitted transfer under the Investors' Agreement, the Investor shall be entitled to designate, appoint, remove, replace and reappoint one director to the board of directors of Xtep Global and the Company shall agree that it shall not vote in favour of the removal of the director appointed by the Investor in any resolution unless the Investor requests for the removal.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The following summarises certain of the principal terms of the Convertible Bonds:

Issuer:	Xtep Global
Amount:	An aggregate principal amount of US\$65,000,000.
Term:	The Convertible Bonds are perpetual securities and hence there is no fixed maturity date.
Interest:	The Convertible Bonds bear zero (0) interest.
Denomination:	US\$1,000,000 and higher integral multiples of US\$1.
Conversion Price:	US\$4,333.33 per Conversion Share (subject to adjustment events set out in and in accordance with the terms and conditions of the Convertible Bonds).

The Conversion Price of the Conversion Shares was arrived at after arm's length negotiations between Xtep Global and the Investor and based on the valuation of Xtep Global with reference to the consideration of US\$260,000,000 at which the brands of "K-Swiss", "Palladium", etc. were acquired by Xtep Global in 2019 (details of which are set out in the Company's announcement dated 2 May 2019).

Conversion period:	The Convertible Bonds shall be convertible at any time after the issue date of the Convertible Bonds.
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Forced conversion:	Unless previously redeemed, converted or purchased and cancelled as provided in the terms and conditions of the Convertible Bonds, upon the occurrence of a QIPO or an IPO approved in writing by the Investor in accordance with the Investors' Agreement, Xtep Global shall provide written notice to the Investor no later than five Business Days prior to the listing date that all outstanding Convertible Bonds will be mandatorily converted on the listing date.
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The Convertible Bonds will convert into ordinary shares of Xtep Global or such other shares of Xtep Global into which the ordinary shares are converted in connection with a QIPO or IPO approved in writing by the Investor in accordance with the Investors' Agreement.

- Transferability:** Absent any redemption trigger events as stated in the terms and conditions of the Convertible Bonds, the Convertible Bonds may not, without the written consent of the Xtep Global, be transferred by the Investor to any person who is not an affiliate of the Investor.
- Redemption:** There is no fixed redemption date. Xtep Global may, at any time and from time to time, by notice to the Investor make an offer to redeem the Convertible Bonds. The Investor may accept such offer in whole or in part. Xtep Global shall have the right to call and redeem all the outstanding Convertible Bonds as at the tenth year anniversary of the issue date of the Convertible Bonds.
- Redemption trigger events:** If any of the redemption trigger events as stated in the terms and conditions of the Convertible Bonds has occurred, the Investor at its discretion may at any time thereafter give notice to Xtep Global that the Convertible Bonds are, and they shall immediately become, due and repayable, at a corresponding redemption price under the terms and conditions of the Convertible Bonds.
- Ranking:** The Convertible Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of Xtep Global and shall at all times rank *pari passu* and without any preference or priority among themselves, and equally with all other existing and future unsecured and unsubordinated obligations of Xtep Global.
- The Conversion Shares will be fully-paid and in all respects rank *pari passu* with the issued and fully-paid shares of Xtep Global.
- Listing:** No application will be made for the listing of the Convertible Bonds or the Conversion Shares on the Stock Exchange or any other stock exchange.

SHAREHOLDING STRUCTURE OF XTEP GLOBAL

Upon full conversion of the Convertible Bonds at the Conversion Price, a total of 15,000 Conversion Shares will be issued, representing approximately 25% of the issued share capital of Xtep Global upon issue of the Convertible Bonds and 20% of the issued share capital of Xtep Global as enlarged by the issue of the Conversion Shares. Upon full conversion, the Company's equity interest in Xtep Global will be reduced to approximately 80% and Xtep Global will become a non wholly-owned subsidiary of the Company.

The following table sets out the shareholding structure of Xtep Global (i) immediately upon issue of the Convertible Bonds; and (ii) immediately upon full conversion of the Convertible Bonds, assuming that there is no other change in the issued shares of Xtep Global from the date of this announcement (for illustration purposes only).

Shareholders of Xtep Global	Immediately upon issue of the Convertible Bonds		Immediately upon full conversion of the Convertible Bonds	
	<i>Number of shares of Xtep Global</i>	<i>Approx. %</i>	<i>Number of shares of Xtep Global</i>	<i>Approx. %</i>
The Company	60,000(<i>note</i>)	100	60,000	80
The Investor	—	—	15,000	20
Total	<u>60,000</u>	<u>100</u>	<u>75,000</u>	<u>100</u>

Note: As at the date of this announcement, Xtep Global has an issued share capital of 50,000 shares. An additional 10,000 shares of Xtep Global are expected to be allotted and issued to the Company before Completion to capitalise the US\$260,000,000 shareholder loan from the Company as one of the conditions precedent to the Subscription.

INFORMATION ON THE COMPANY AND THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability. It is a leading multi-brand sportswear company listed on the Main Board of the Stock Exchange. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand “Xtep” has become 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. Since 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

INFORMATION ON XTEP GLOBAL

Xtep Global is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the date of this announcement, Xtep Global is a direct wholly-owned subsidiary of the Company.

In August 2019, Xtep Global Limited (a wholly-owned subsidiary of Xtep Global) acquired E-Land Footwear USA Holdings Inc. (the “**Acquisition**”), the then owner of the renowned sportswear and lifestyle brands including “K-Swiss” and “Palladium”, which acquisition has enabled the Group to develop its international multi-brand portfolio and transformed the Group into a global sportswear player serving diverse customer needs. Since the Acquisition, the Xtep Global Group has become the business operator and the ultimate owner of the “K-Swiss” and “Palladium” brands.

INFORMATION ON THE INVESTOR

The Investor, GSUM VII Holdings Limited, is an exempted company incorporated in the Cayman Islands with limited liability. Hillhouse Capital Management, Ltd. (“**Hillhouse**”) serves as the sole investment manager of the Investor. Founded in 2005, Hillhouse is a global firm of investment professionals and operating executives who are focused on building and investing in high quality business franchises that achieve sustainable growth. Independent proprietary research and industry expertise, in conjunction with world-class operating and management capabilities, are key to Hillhouse’s investment approach. Hillhouse partners with exceptional entrepreneurs and management teams to create value, often with a focus on enacting innovation and technological transformation. Hillhouse invests in the healthcare, consumer, technology, media, telecommunications, consumer technology, financial and business services sectors in companies across all equity stages. Hillhouse and its group members manage assets on behalf of global institutional clients.

USE OF PROCEEDS AND REASONS AND BENEFITS FOR THE ISSUE OF THE CONVERTIBLE BONDS

The gross proceeds from the Subscription will be US\$65,000,000. Xtep Global intends to apply the net proceeds as the general working capital of the Xtep Global Group.

The Directors and the directors of Xtep Global consider that the issue of Convertible Bonds will enable the Xtep Global Group to raise capital and to obtain immediate funding for certain capital expenditure and for working capital purposes.

Since the Acquisition, the Group has invested significant time and resources to support the growth of the “K-Swiss” and “Palladium” brands and has been ramping up the brand-awareness despite the material adverse impacts to the worldwide markets in the wake of the pandemic. The Board considers the additional financial

capital provided by the Investor represents a valuable opportunity for the Xtep Global Group to further enhance the brand network and develop business plans to intensify the popularity of the two brands.

In addition to the financial boost, the Board also values Hillhouse as a strategic investor for its possession of significant operating resources and industry expertise in the retail sector of the greater china market. The Board believes that Hillhouse's deep vertical knowledge in the consumer service sectors and its extensive online capabilities and offline networks will bring about the innovative element to the business operations of the two brands. The competitive positioning and profitability of the brands will be further elevated and the Board looks forward to fully unlocking the potential of the brands in the rapidly growing sportswear market in the PRC.

In light of the above reasons, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Subscription Agreement and the Transaction Documents were arrived at after arm's length negotiations between the relevant parties, are on normal commercial terms and are fair and reasonable and the issue of the Convertible Bonds is in the interests of the Company and the Shareholders as a whole.

Completion of the Subscription Agreement is subject to fulfilment of the conditions precedent thereunder. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Board”	the board of Directors;
“Business Day(s)”	a day on which commercial banks are open for business in Hong Kong (excluding Saturdays and Sundays);
“Company”	Xtep International Holdings Limited, a company incorporated under the laws of the Cayman Islands, the issued Shares of which are listed on the Stock Exchange;
“Completion”	the completion of the Subscription in accordance with the terms of the Subscription Agreement;

“Completion Date”	the date of Completion, which will be on or before the tenth Business Day following the satisfaction or waiver of the conditions precedent under the Subscription Agreement or on such other date as may be agreed in writing by the parties;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Conversion Price”	US\$4,333.33 for each Conversion Share;
“Conversion Shares”	the new ordinary share(s) of par value of US\$1 each in the share capital of Xtep Global to be allotted and issued by Xtep Global upon exercise of the conversion rights attaching to the Convertible Bonds;
“Convertible Bonds”	the zero (0) per cent. interest perpetual convertible bonds in an aggregate principal amount of US\$65 million to be issued by Xtep Global pursuant to the Subscription Agreement and to be created under the terms and conditions of the convertible bonds;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	party(ies) who is/are independent of the Company and its connected persons and is/are not a connected person(s) of the Company;
“Investor”	GSUM VII Holdings Limited, a company incorporated under the laws of the Cayman Islands;
“Investors’ Agreement”	the investors’ agreement to be entered into between the Company, Xtep Global and the Investor, defining the rights and obligations of the Company and the Investor with respect to Xtep Global before Completion;
“IPO”	an underwritten registered public offering by Xtep Global of its shares on any stock exchange;

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, which, for the purpose of this announcement only, does not include Hong Kong, Macau and Taiwan;
“QIPO”	an IPO on a relevant stock exchange with a minimum pre-offering valuation of Xtep Global of at least US\$700 million;
“Shareholders”	shareholders of the Company;
“Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the proposed subscription of the Convertible Bonds by the Investor pursuant to the terms and conditions of the Subscription Agreement;
“Subscription Agreement”	the conditional subscription agreement dated 15 June 2021 entered into between Xtep Global and the Investor in relation to the Subscription;
“Transaction Documents”	include (i) the Subscription Agreement; (ii) the Investors’ Agreement; (iii) the certificates issued in respect of the Convertible Bonds (including the terms and conditions of the Convertible Bonds); (iv) the restated and amended memorandum and articles of association of Xtep Global; and (v) any other documents entered or to be entered into in writing by the parties relating to the Subscription;
“U.S.” or “United States”	the United States of America;
“US\$”	United States dollar, the lawful currency of the United States;
“Xtep Global”	Xtep Global Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company;
“Xtep Global Group”	Xtep Global and its subsidiaries; and

“%”

per cent.

By Order of the Board
Xtep International Holdings Limited
DING Shui Po
Chairman

Hong Kong, 15 June 2021

As at the date of this announcement, the executive Directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong; and the independent non-executive Directors are Mr. Tan Wee Seng, Dr. Bao Ming Xiao and Dr. Wu Ka Chee, Davy.