

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xtep International Holdings Limited, you should at once hand this circular, together with the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Xtep International Holdings Limited.



**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)**

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION —  
DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL  
OF KP GLOBAL;**
- (2) PROPOSED DECLARATION OF SPECIAL DIVIDEND;**
- (3) DISCLOSEABLE AND CONNECTED TRANSACTION —  
ISSUE OF CONVERTIBLE  
BONDS IN PRINCIPAL AMOUNT OF US\$154,000,000  
BY KP GLOBAL TO THE COMPANY;**
- (4) CONNECTED TRANSACTION — WAIVER IN RESPECT  
OF DEED OF NON-COMPETE;  
AND**
- (5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**紅日資本有限公司**  
**RED SUN CAPITAL LIMITED**

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” of this circular, unless the context otherwise requires.

A notice convening the EGM of Xtep International Holdings Limited to be held at 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong at 2:30 p.m. on Friday, 23 August 2024 is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and deposit the same with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the commencement of the meeting or any adjournment thereof. Such form of proxy can also be downloaded from the Company’s website ([www.xtep.com.hk](http://www.xtep.com.hk)) and the HKEXnews website ([www.hkexnews.hk](http://www.hkexnews.hk)). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

2 August 2024

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Articles”	the articles of association of the Company as effective from time to time
“Board”	the board of Directors
“Business Day(s)”	unless otherwise specified, a day on which commercial banks in Hong Kong and the PRC are generally open for business other than Saturday and Sunday or a public holiday, or a day on which commercial banks do not open for business owing to a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal being in force in Hong Kong
“Call Option”	the call option granted by Ding Shun Investment, guaranteed by Mr. Ding, to the K-Swiss CB Investor to require Ding Shun Investment to sell all of the Option Shares to the K-Swiss CB Investor under the Call Option Deed
“Call Option Deed”	the deed dated 9 May 2024 entered into among Ding Shun Investment, Mr. Ding and the K-Swiss CB Investor in respect of the grant of the Call Option by Ding Shun Investment in favour of the K-Swiss CB Investor
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	Xtep International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Non-compete”	the deed of non-compete dated 7 May 2008 executed by the then controlling shareholders of the Company in favour of the Company
“Ding Family”	Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong
“Ding Shun Investment”	Ding Shun Investment Limited, a company incorporated in the British Virgin Islands with limited liability, which is owned as to 67%, 21% and 12% by Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong, respectively
“Director(s)”	director(s) of the Company

## DEFINITIONS

“Disposal”	the disposal of the entire issued share capital of KP Global by the Company pursuant to the Share Purchase Agreement
“Disposal Transaction Documents”	the Share Purchase Agreement, the K-Swiss Convertible Bonds Redemption Agreement, the KP Subscription Agreement and the Transition Services Agreement
“EGM”	the extraordinary general meeting of the Company to be held at 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong at 2:30 p.m. on Friday, 23 August 2024 or any adjournment thereof
“Floating Charge”	the floating charge to be executed by KP Global as charger in favour of the Company to secure the performance of liabilities of KP Global under the KP Bond Instrument
“General Mandate”	the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 3 May 2024, which authorised the Directors to allot, issue or otherwise deal with up to 528,291,441 Shares, representing 20% of the total number of Shares in issue as at that date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hillhouse”	Hillhouse Investment Management, Ltd., an Independent Third Party, being the investment manager of the Investor and the K-Swiss CB Investor
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board comprising all independent non-executive Directors formed to advise the Independent Shareholders on the terms of the Share Purchase Agreement, the Special Dividend, the KP Convertible Bonds and the Waiver
“Independent Financial Adviser”	Red Sun Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Share Purchase Agreement, the Special Dividend, the KP Convertible Bonds and the Waiver

## DEFINITIONS

“Independent Shareholder(s)”	the Shareholders other than Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong and their respective associates and any other Shareholder with a material interest in the Disposal, the Special Dividend, the KP Convertible Bonds and the Waiver
“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 IV Holdings Limited, a company incorporated under the laws of the Cayman Islands which is ultimately managed and controlled by Hillhouse
“KP Bond Certificate”	the certificate issued in respect of the KP Convertible Bonds substantially in the form set out in the KP Bond Instrument
“KP Bond Instrument”	the bond instrument constituting the KP Convertible Bonds to be executed by KP Global as a deed in the form to be agreed by KP Global and the Company, together with any other document executed in accordance with the bond instrument (as from time to time so amended) and expressed to be supplemental to the bond instrument
“KP Bond Issue”	the issue of the KP Convertible Bonds by KP Global
“KP Bondholder(s)”	the holder(s) of the KP Convertible Bonds whose name are registered on the register of bondholders of KP Global
“KP CB Closing”	the closing of the subscription of the KP Convertible Bonds in accordance with the terms of the KP Subscription Agreement
“KP CB Closing Date”	the closing date for the KP Bond Issue, which shall be a date no later than five Business Days after the fulfillment or waiver of the conditions to the KP CB Closing or at such other place and time as KP Global and the Company may mutually agree upon
“KP CB Conversion Price”	initially at US\$5,988.95 per KP CB Conversion Share subject to adjustment in the manner provided in the KP Bond Instrument
“KP CB Conversion Shares”	shares to be allotted and issued by KP Global to the Company pursuant to the KP CB Transaction Documents upon conversion of the KP Convertible Bonds in accordance with the KP Bond Instrument

## DEFINITIONS

“KP CB Issue Date”	in respect of any KP Convertible Bond, the date of issue of such KP Convertible Bond
“KP CB Maturity Date”	the date falling on the eighth anniversary of the KP CB Issue Date
“KP CB Transaction Documents”	(i) the KP Subscription Agreement; (ii) the KP Bond Instrument; (iii) the KP Bond Certificate; (iv) the Floating Charge; and (v) any deeds of adherence, other agreements, instruments, certificates executed or entered into pursuant to or in connection with the KP Bond Issue
“KP Convertible Bonds”	the 3.5% convertible bonds due 2032 in the principal amount of US\$154,000,000 to be issued by KP Global to the Company on the KP CB Closing Date, with the benefit of and subject to the provisions of the KP Bond Instrument and the KP Subscription Agreement
“KP Global”	KP Global Investment Limited (formerly known as Xtep Global Investment Limited), a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“KP Global Group”	KP Global and its subsidiaries
“KP Subscription”	the proposed subscription of the KP Convertible Bonds by the Company pursuant to the terms and conditions of the KP Subscription Agreement
“KP Subscription Agreement”	the conditional subscription agreement dated 9 May 2024 entered into between the Company and KP Global in relation to the KP Subscription
“K-Swiss Bond Certificate”	the certificate issued in respect of the K-Swiss Convertible Bonds
“K-Swiss CB Investor”	GSUM VII Holdings Limited, a company incorporated under the laws of the Cayman Islands which is ultimately managed and controlled by Hillhouse
“K-Swiss CB Redemption”	the redemption of the K-Swiss Convertible Bonds by KP Global
“K-Swiss CB Redemption Closing”	the closing of the K-Swiss CB Redemption
“K-Swiss CB Redemption Closing Date”	the date on which the K-Swiss CB Redemption Closing takes place

## DEFINITIONS

“K-Swiss Convertible Bonds”	the US\$65,000,000 zero coupon perpetual convertible bonds issued by KP Global to the K-Swiss CB Investor on 9 September 2021
“K-Swiss Convertible Bonds Redemption Agreement”	the redemption agreement entered into between KP Global and the K-Swiss CB Investor dated 9 May 2024 in respect of the redemption of the K-Swiss Convertible Bonds at the principal amount of US\$65,000,000
“Latest Practicable Date”	26 July 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ding”	Mr. Ding Shui Po, the chairman of the Board, executive Director and controlling shareholder of the Company
“Notice”	the notice convening the EGM as set out on pages EGM-1 to EGM-3 of this circular; such notice can also be downloaded from the website of the Company ( <a href="http://www.xtep.com.hk">www.xtep.com.hk</a> ) and the HKExnews website ( <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> )
“Option Shares”	such number of issued shares of KP Global, representing 20% of the issued shares of KP Global on a fully-diluted and as-converted basis at the time of completion of the Call Option held by Ding Shun Investment
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Transactions”	the transactions contemplated under the Share Purchase Agreement, the Special Dividend, the KP Convertible Bonds and the Waiver
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Purchase Agreement”	the share purchase agreement dated 9 May 2024 entered into between the Company and Ding Shun Investment in relation to the Disposal

## DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares
“Special Dividend”	a special dividend of HK\$0.447 per Share to be paid in cash
“Special Dividend Record Date”	9 September 2024, being the record date for determining Shareholders’ entitlement to the Special Dividend
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transition Services Agreement”	the transition services agreement to be entered into between the Company and KP Global in relation to the provision of certain transition services to KP Global
“U.S.” or “United States”	the United States of America
“US\$”	United States dollar, the lawful currency of the United States
“Waiver”	the waiver sought by Mr. Ding and Ms. Ding Mei Qing from strict compliance by the covenantors under the Deed of Non-compete in respect of certain non-competition restrictions set out in the Deed of Non-compete
“Xtep Bond Instrument”	the bond instrument constituting the Xtep Convertible Bonds to be executed by the Company as a deed in the form to be agreed by the Company and the Investor, together with any other document executed in accordance with the bond instrument (as from time to time so amended) and expressed to be supplemental to the bond instrument
“Xtep CB Closing Date”	the closing date for the issue of the Xtep Convertible Bonds by the Company, which shall be a date no later than 10 Business Days after the fulfillment or waiver of the conditions to the closing of the subscription of the Xtep Convertible Bonds or at such other place and time as the Company and the Investor may mutually agree upon
“Xtep Convertible Bonds”	the 3.5% convertible bonds due 2030 in the principal amount of HK\$500,000,000 to be issued by the Company to the Investor on the Xtep CB Closing Date, with the benefit of and subject to the provisions of the Xtep Bond Instrument and the Xtep Subscription Agreement
“Xtep Subscription Agreement”	the conditional subscription agreement dated 9 May 2024 entered into between the Company and the Investor in relation to the subscription of the Xtep Convertible Bonds by the Investor



## DEFINITIONS

“%”

per cent

In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.



**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)**

*Executive Directors:*

Mr. Ding Shui Po  
*(Chairman and Chief Executive Officer)*  
Ms. Ding Mei Qing  
Mr. Ding Ming Zhong

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Non-executive Director:*

Mr. Tan Wee Seng

*Principal place of business in Hong Kong:*

Unit A, 27/F, Tower A  
Billion Centre, 1 Wang Kwong Road  
Kowloon Bay, Kowloon  
Hong Kong

*Independent non-executive Directors:*

Dr. Bao Ming Xiao  
Dr. Wu Ka Chee, Davy  
Dr. Chan Yee Wah

2 August 2024

Dear Shareholders,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION —  
DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF KP GLOBAL;  
(2) PROPOSED DECLARATION OF SPECIAL DIVIDEND;  
(3) DISCLOSEABLE AND CONNECTED TRANSACTION —  
ISSUE OF CONVERTIBLE  
BONDS IN PRINCIPAL AMOUNT OF US\$154,000,000  
BY KP GLOBAL TO THE COMPANY;  
(4) CONNECTED TRANSACTION — WAIVER IN RESPECT  
OF DEED OF NON-COMPETE;  
AND  
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcements of the Company dated 9 May 2024 and 23 May 2024. The primary purpose of this circular is to provide you with information regarding the Share Purchase Agreement, the declaration and distribution of the Special Dividend, the subscription of the KP Convertible Bonds and the Waiver, and to seek your approval of the resolutions to these matters at the EGM.

## LETTER FROM THE BOARD

### BACKGROUND

The Group acquired the brands “K-Swiss” and “Palladium” at a consideration of US\$260 million in 2019. During the first few years after such acquisition, the retail market had faced challenges due to the COVID-19 pandemic coupled with escalating geopolitical tensions which caused disruptions to the economic and trade activities across the world. As the economy of China slowly recovered after the COVID-19 pandemic, consumer demands had dropped causing significant negative impact to the business of the brands “K-Swiss” and “Palladium”.

The business of the brands “K-Swiss” and “Palladium” had recorded continuous losses since 2019 and the aggregate operating losses of these brands has accumulated to over US\$100 million. The two brands incurred a loss of approximately US\$31.8 million for the year ended 31 December 2023. During the first three months of 2024, a loss of approximately US\$9 million has already been recorded for these two brands. It is expected that these two brands would continue to incur significant losses similar to the year ended 31 December 2023 for the year ending 31 December 2024.

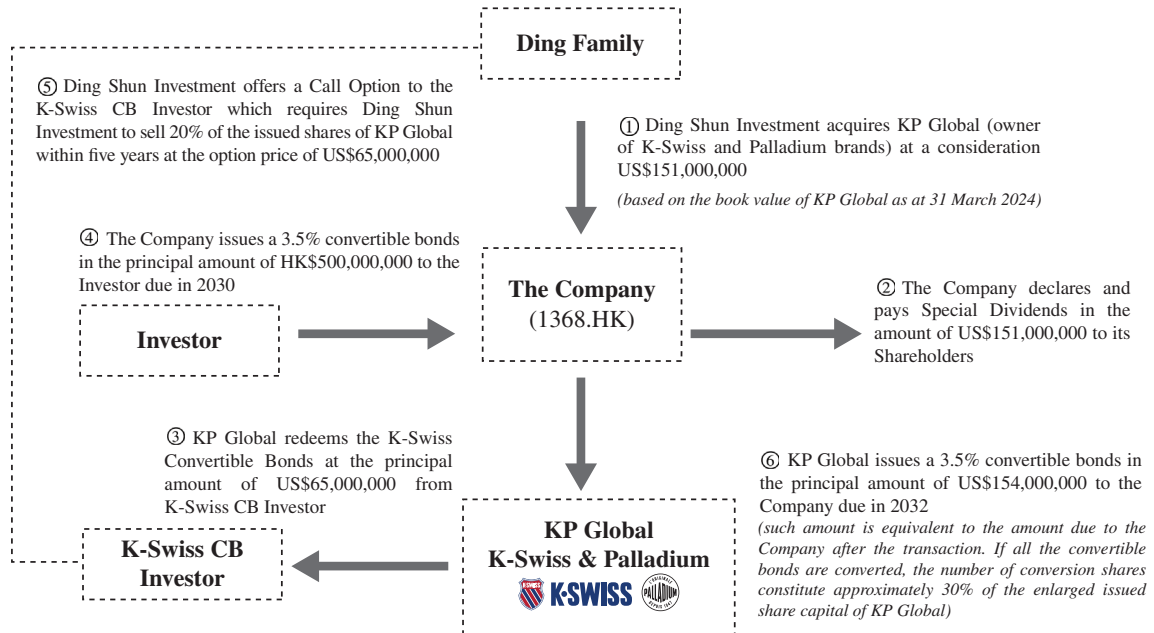
In order to eliminate the ongoing impact on the Group’s profitability and cash flows as a result of the losses incurred by the business of the brands “K-Swiss” and “Palladium”, after thorough consideration, the Ding Family, who are the controlling shareholders of the Company, proposed to acquire KP Global which owns the brands “K-Swiss” and “Palladium” at a consideration of US\$151,000,000. Subject to the completion of the Disposal, in appreciation of the Shareholders’ long term support, the Board intends to declare the Special Dividend of approximately US\$151,000,000 to the Shareholders whose names appear on the register of members of the Company on the Special Dividend Record Date.

Since KP Global has issued the K-Swiss Convertible Bonds to the K-Swiss CB Investor in 2021, the Company proposed to swap the K-Swiss Convertible Bonds with the Xtep Convertible Bonds. The K-Swiss Convertible Bonds will be redeemed in full by KP Global, and the Company will issue the Xtep Convertible Bonds to the Investor. Ding Shun Investment, guaranteed by Mr. Ding, will also grant a Call Option to the K-Swiss CB Investor which would require Ding Shun Investment to sell the Option Shares to the K-Swiss CB Investor at the option price of US\$65,000,000 within five years from the date of completion of the Disposal.

After the K-Swiss CB Redemption Closing, KP Global will owe the Company an amount of US\$154 million which corresponds to (i) the accumulated losses since the acquisition in 2019 combined with its value of the capital expenditure and working capital as at end of March 2024 and (ii) the amount to be paid by the Company for the early redemption of the K-Swiss Convertible Bonds. Subject to the completion of the Disposal, in place of the amount owed to the Company, KP Global will issue the KP Convertible Bonds to the Company.

## LETTER FROM THE BOARD

The following chart provides a summary of the transactions within the Group and with the Ding Family for illustrative purpose.



Accordingly, a sequence of transactions have been entered into among various parties, being:

- (i) the Share Purchase Agreement entered between the Company and Ding Shun Investment, pursuant to which the Company has conditionally agreed to sell, and Ding Shun Investment has conditionally agreed to acquire, all the issued share capital of KP Global at the consideration of US\$151,000,000;
- (ii) subject to the completion of the Disposal, in appreciation of the Shareholders' long term support, the intended declaration of Special Dividend of approximately US\$151,000,000 to be paid out of the net proceeds from the Disposal, to the Shareholders whose names appear on the register of members of the Company on the Special Dividend Record Date;
- (iii) the K-Swiss Convertible Bonds Redemption Agreement entered into between KP Global and the K-Swiss CB Investor, pursuant to which KP Global agreed to redeem the K-Swiss Convertible Bonds at the aggregate redemption price of US\$65,000,000;
- (iv) the Xtep Subscription Agreement entered into between the Company and the Investor, pursuant to which the Investor has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Xtep Convertible Bonds in the aggregate principal amount of HK\$500,000,000;

## LETTER FROM THE BOARD

- (v) Ding Shun Investment, Mr. Ding and the K-Swiss CB Investor executed the Call Option Deed, pursuant to which Ding Shun Investment shall grant to the K-Swiss CB Investor the Call Option, the exercise of which shall require Ding Shun Investment to sell all of the Option Shares to the K-Swiss CB Investor at an aggregate option price of US\$65,000,000 within five years from the date of completion of the Disposal;
- (vi) the KP Subscription Agreement entered into between the Company and KP Global, pursuant to which the Company has conditionally agreed to subscribe for and KP Global has conditionally agreed to issue the KP Convertible Bonds at an aggregate principal amount of US\$154,000,000; and
- (vii) Mr. Ding and Ms. Ding Mei Qing requested from the Company for the Waiver in respect of the non-competition restrictions that apply to the business of the “K-Swiss” and “Palladium” brands being carried out by KP Global.

A summary of the conditionality among the aforesaid transactions is set out below:

1. **Disposal:** The Disposal is conditional upon (i) the redemption of the K-Swiss Convertible Bonds having been completed pursuant to the terms of the K-Swiss Convertible Bonds Redemption Agreement; and (ii) the grant of the Waiver to Mr. Ding, Ms. Ding Mei Qing and their affiliates.
2. **Declaration of Special Dividend:** The declaration and payment of the Special Dividend is conditional upon the completion of the Disposal.
3. **K-Swiss CB Redemption:** The obligation of the K-Swiss CB Investor and KP Global to consummate the K-Swiss CB Redemption Closing is conditional upon (i) the Xtep Subscription Agreement, Xtep Bond Instrument and the Xtep Bond Certificate having been duly executed and delivered by the parties thereto; and (ii) the Call Option shall have been unconditionally and irrevocably granted to the K-Swiss CB Investor.
4. **Issue of Xtep Convertible Bonds:** The issue of the Xtep Convertible Bonds to the Investor is not subject to other transactions as disclosed in this circular.
5. **Subscription of KP Convertible Bonds:** The obligation of the Company to subscribe for the KP Convertible Bonds is conditional upon (i) the Disposal having been completed; and (ii) the redemption of the K-Swiss Convertible Bonds having been completed.
6. **Grant of Waiver regarding the Deed of Non-compete:** The grant of the Waiver is not conditional upon the other transactions contained in this circular.
7. **Grant of Call Option:** The grant of the Call Option by Ding Shun Investment to the K-Swiss CB Investor is not conditional upon the other transactions contained in this circular. The exercise of the Call Option by the K-Swiss CB Investor is conditional upon the completion of the Disposal.

## LETTER FROM THE BOARD

Details of the Share Purchase Agreement, the proposed declaration of the Special Dividend, the issue of KP Convertible Bonds to the Company and the Waiver in respect of Deed of Non-compete are set out below.

### (1) THE SHARE PURCHASE AGREEMENT

On 9 May 2024 (after trading hours), the Company and Ding Shun Investment entered into the Share Purchase Agreement pursuant to which the Company has conditionally agreed to sell, and Ding Shun Investment has conditionally agreed to acquire, all the issued share capital of KP Global at the consideration of US\$151,000,000.

Details of the major terms of the Share Purchase Agreement are as follows:

Date:	9 May 2024 (after trading hours)
Parties:	The Company, as vendor Ding Shun Investment, as purchaser

#### **Subject matter**

Pursuant to the terms of the Share Purchase Agreement, the Company has conditionally agreed to dispose of, and Ding Shun Investment has conditionally agreed to acquire, all the issued share capital of KP Global at the consideration of US\$151,000,000. As at the Latest Practicable Date and immediately prior to the completion of the Share Purchase Agreement, KP Global was wholly owned by the Company.

#### **Consideration**

The consideration of US\$151,000,000 shall be paid in cash at completion by Ding Shun Investment to the Company.

#### **Basis of consideration**

The consideration of US\$151,000,000 was determined after arm's length negotiations between the parties to the Share Purchase Agreement on normal commercial terms, with reference to the book value of KP Global Group as at 31 March 2024, being approximately US\$151,000,000.

#### **Conditions precedent**

The Share Purchase Agreement is conditional upon:

- (i) the approval of (a) the sale of all the issued share capital of KP Global, (b) the subscription of the KP Convertible Bonds by the Company, (c) the declaration of the Special Dividend, (d) the grant of the Waiver to Mr. Ding, Ms. Ding Mei Qing and their affiliates, and (e) the transactions contemplated under the Transition Services Agreement (if required under Chapter 14A of the Listing

## LETTER FROM THE BOARD

Rules) by the Independent Shareholders in accordance with the requirements of Chapter 14A of the Listing Rules and any other requirements imposed by the Stock Exchange;

- (ii) there being (a) no law or order in existence and binding on any party that specifically prohibits or makes illegal the Disposal or the execution, delivery or performance of the Disposal, and (b) no pending proceedings by any governmental body that seek to prohibit or make illegal the Disposal or the execution, delivery or performance of the Disposal Transaction Documents; and
- (iii) the redemption of the K-Swiss Convertible Bonds having been completed pursuant to the terms of the K-Swiss Convertible Bonds Redemption Agreement.

If the conditions precedent have not been fulfilled on or before 31 December 2024 (or such later date as the parties agree in writing), the Share Purchase Agreement shall cease to have effect, and no party shall have any claim against the other party except for any antecedent breach of the Share Purchase Agreement. None of the above conditions can be waived by the parties. As at the Latest Practicable Date, none of the conditions above had yet been fulfilled.

### Completion

Completion shall take place after all of the conditions precedent set forth above have been satisfied on the later of (a) the third (3rd) business day after the condition precedent set forth in (i) has been satisfied; and (b) the thirtieth (30th) business day after the condition precedent set forth in (ii) has been satisfied, or at such other date as the relevant parties mutually agree in writing.

Immediately after completion of the Share Purchase Agreement, KP Global will cease to be a subsidiary of the Company.

### FINANCIAL INFORMATION OF KP GLOBAL

The unaudited consolidated net asset value of KP Global Group as at 31 December 2023 and 31 March 2024 was approximately US\$164,100,000 and US\$151,000,000, respectively.

The unaudited consolidated financial information of KP Global Group for the two years ended 31 December 2023 is set out below:

	<b>For the year ended 31 December</b>	
	<b>2022</b>	<b>2023</b>
	<i>US\$'000</i>	<i>US\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net loss (before taxation)	24,306	31,787
Net loss (after taxation)	23,030	31,762

## LETTER FROM THE BOARD

As KP Global is a company incorporated in the British Virgin Islands, it is not required to conduct annual audit. Unaudited financial information is therefore provided above for information of the Shareholders.

Upon completion of the Disposal, members of the KP Global Group will cease to be subsidiaries of the Company and their financial statements will no longer be consolidated into the financial statements of the Group. Having taken into account that the consideration of the Disposal of US\$151,000,000 is based on the net book value of the KP Global Group as at 31 March 2024, save for an expected gain on the Disposal associated with the losses of the KP Global Group to be recorded subsequent to 31 March 2024 and up to the date of completion of the Disposal and the professional fees, and barring unforeseen circumstances, it is expected that, subject to audit, the Group will not derive any other material gains or losses or have a material impact on the net asset of the Group as a whole attributable to the Disposal.

### INFORMATION ON THE COMPANY AND THE GROUP

Xtep International Holdings Limited is a leading multi-brand sportswear company listed on the Main Board of the 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.

### INFORMATION ON DING SHUN INVESTMENT

Ding Shun Investment is a company incorporated in the British Virgin Islands which is owned by Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong as to 67%, 21% and 12% respectively. Ding Shun Investment is principally engaged in investment holding.

### INFORMATION ON KP GLOBAL GROUP

KP Global is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, KP Global was a direct wholly-owned subsidiary of the Company.

In August 2019, KP Global Brand Limited (formerly Xtep Global Limited, and a wholly-owned subsidiary of KP 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”. The 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 KP Global Group has become the business operator and the ultimate owner of the “K-Swiss” and “Palladium” brands.



## LETTER FROM THE BOARD

### REASONS FOR AND BENEFITS OF THE DISPOSAL

While other brands such as “Saucony” and “Merrell” have already turned a profit, the business of the brands “K-Swiss” and “Palladium” had recorded continuous losses since 2019 and the aggregate operating losses of these brands has accumulated to over US\$100 million. During the first three months of 2024, an unaudited loss of approximately US\$9 million has already been recorded for these two brands. It is expected that these two brands would continue to incur losses similar to the year ended 31 December 2023 for the year ending 31 December 2024.

The Board is of the view that the Disposal provides an opportunity for the Group to eliminate the ongoing impact on its profitability and cash flows as a result of the losses incurred by the business of the brands “K-Swiss” and “Palladium”. In addition, the Disposal will allow the Group to concentrate its resources on developing its highly profitable brands — core Xtep brand, Saucony and Merrell.

It is expected that the completion of the Disposal will lead to a significant reduction in losses for the Group, with an improvement in profitability over the next two years and beyond. The business structure will be streamlined, focusing on running: the core Xtep brand which targets the mass market; Saucony which caters to the high-end sophisticated customers; and Merrell which specializes in trail running and outdoor activities, and enhancing synergy among these brands.

Consideration of the Disposal was determined upon negotiation on arm’s length basis by reference to net book value of KP Global as at 31 March 2024, being approximately US\$151,000,000, and appraised value of 100% equity interest of KP Global, being approximately US\$143,958,000, as detailed in the valuation report set out in Appendix I to this circular. Having considered the valuation report, the Board concurs with the valuer that (i) the adoption of the market approach in evaluating the 100% equity interest of KP Global is consistent with the market practice; (ii) the enterprise value-to-sales multiples and price-to-sales multiples are more appropriate and relevant for the purpose of the valuation; (iii) the selection of the comparable companies for the purpose of the valuation is fair and reasonable; and (iv) the adjustments made regarding control premiums and lack of marketability discount are in line with the market practice. Given the consideration of the Disposal is at a light premium of approximately 4.9% over the appraised value set out in the valuation report, the Board is of the view that the consideration of the Disposal is fair and reasonable.

The proceeds from the Disposal will be used for the declaration and distribution of the Special Dividend as disclosed in the section headed “Proposed Declaration of Special Dividend” below.

In view of the reasons and benefits above, the Directors are of the view that (a) the terms and conditions of the Share Purchase Agreement are fair and reasonable; and (b) the Disposal is in the interests of Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

### LISTING RULES IMPLICATIONS

Ding Shun Investment is owned by Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong as to 67%, 21% and 12% respectively. Since each of Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong has material interests in the Disposal, they have abstained from voting on the board resolution approving the Disposal in accordance with the requirements of the Articles and the Listing Rules.

As at the Latest Practicable Date, each of Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong was a Director and was interested in 49.24%, 46.59% and 46.62% of the issued share capital of the Company, respectively. Accordingly, the transaction contemplated under the Share Purchase Agreement constitutes connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Share Purchase Agreement exceed 5% but is less than 25%, the transaction contemplated under the Share Purchase Agreement constitutes (i) a discloseable transaction for the Company that is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) a connected transaction for the Company that is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### (2) PROPOSED DECLARATION OF SPECIAL DIVIDEND

Subject to the completion of the Disposal and the Independent Shareholders' approval at the EGM, in appreciation of the Shareholders' long term support, the Board recommended the payment of a Special Dividend of HK\$0.447 per Share in cash to all those Shareholders who are Shareholders of record on the Special Dividend Record Date (i.e. 9 September 2024). Based on the 2,644,517,925 Shares in issue as at the Latest Practicable Date, it was expected that a Special Dividend in an aggregate amount of approximately HK\$1,182 million will be paid.

The register of members of the Company will be closed from Thursday, 5 September 2024 to Monday, 9 September 2024 (both dates inclusive), during which period no transfer of Shares will be registered. Subject to the Independent Shareholders' approval at the EGM and conditional upon the completion of the Disposal, the Special Dividend will be paid to the Shareholders whose names appear on the register of members of the Company on Monday, 9 September 2024. Further details in relation to the payment date of the Special Dividend will be set out in an announcement of the Company to be published on or around the completion of the Disposal.

#### Conditions of the declaration of the Special Dividend

The declaration and distribution of the Special Dividend is conditional upon the satisfaction of the following conditions:

- (a) the completion of the Disposal;

## LETTER FROM THE BOARD

- (b) pursuant to the facility agreement dated 3 July 2023 entered into between the Company as borrower and a consortium of six banks in relation to a 4-year term loan facility in the principal amount of HK\$1,000,000,000 (please refer to the announcement of the Company dated 3 July 2023 for details), the consent from the banks approving the declaration and distribution of the Special Dividend being obtained;
- (c) the passing of an ordinary resolution by the Independent Shareholders declaring and approving the distribution of the Special Dividend pursuant to the Articles; and
- (d) the Directors being satisfied that there are no reasonable grounds for believing that the Company is, immediately following the date on which the Special Dividend is paid, unable to pay its debts as they fall due in the ordinary course of business.

The conditions set out above cannot be waived. If the conditions set out above are not satisfied, the Special Dividend will not be paid.

The Special Dividend will allow Shareholders to immediately realise substantial value from their shareholdings in the Company while continuing to be invested in the Company's remaining businesses. As the Special Dividend provides the opportunity for a substantial and immediate cash realization to the Shareholders from the outcome of the Disposal, the Board considers that the proposed distribution of the Special Dividend would, if materialized, be in the interests of the Company and the Shareholders as a whole. If the Disposal is not approved by the Shareholders, or does not complete, then the Special Dividend will not be paid.

Since each of Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong has material interests in the declaration and distribution of the Special Dividend, they have abstained from voting on the board resolution approving the declaration and distribution of the Special Dividend in accordance with the requirements of the Articles and the Listing Rules.

### **(3) ISSUE OF KP CONVERTIBLE BONDS TO THE COMPANY**

On 9 May 2024, KP Global entered into the KP Subscription Agreement with the Company, pursuant to which the Company has conditionally agreed to subscribe for and KP Global has conditionally agreed to issue the KP Convertible Bonds at an aggregate principal amount of US\$154,000,000. Details of the KP Subscription Agreement are set out below:

#### **The KP Subscription Agreement**

Date: 9 May 2024

Parties: KP Global, as the issuer  
The Company, as the subscriber

## LETTER FROM THE BOARD

**Principal amount:** An aggregate principal amount of US\$154,000,000 to be payable in full immediately upon KP CB Closing. The principal amount shall be satisfied and settled by offsetting against the amount due from KP Global to the Company as at the end of March 2024.

Amounts payable by KP Global to the Company as at 31 March 2024, being approximately US\$88,570,710, comprised of shareholders' loan to support the business operations of KP Global and capital expenditure of approximately US\$88,570,452 and payment made on behalf Xiamen Xtep Investment Company Limited, an indirect wholly-owned subsidiary of the Company, of approximately US\$258. No further payable had been accrued after 31 March 2024 and up to the Latest Practicable Date.

The principal amount of the KP Convertible Bonds of US\$154,000,000 represents the amount to be owed by KP Global to the Company after the completion of the K-Swiss CB Redemption and the Disposal, which includes (i) the accumulated losses since the Acquisition in 2019 combined with its value of the capital expenditure and working capital as at end of March 2024; and (ii) the amount to be paid by the Company for the early redemption of the K-Swiss Convertible Bonds.

Subject to the completion of the Disposal, KP Global will issue the KP Convertible Bonds at an aggregate principal amount of US\$154,000,000 to the Company to refinance the equivalent amount which are expected to be due from KP Global to the Company at completion of the Disposal.

### **Conditions precedent to the KP Subscription**

The obligation of the Company to subscribe for the KP Convertible Bonds is subject to the fulfillment of each of the following conditions (any or all of such conditions, other than those under (a) and (b) below, may be waived by the Company) at or prior to the KP CB Closing:

- (a) approval from the Independent Shareholders in connection with the entering into of the KP Subscription Agreement and the transactions contemplated thereunder having been obtained;
- (b) the Disposal having been completed;
- (c) the redemption of the K-Swiss Convertible Bonds having been completed in accordance with the terms and conditions of the K-Swiss Convertible Bonds Redemption Agreement;

## LETTER FROM THE BOARD

- (d) the warranties of KP Global contained in the KP Subscription Agreement shall be true, correct, accurate, complete and not misleading when made, and shall continue to be true, correct, accurate, complete and not misleading up to the KP CB Closing Date;
- (e) KP Global shall have performed and complied with all covenants, agreements, obligations and conditions contained in the KP CB Transaction Documents that are required to be performed or complied with by it on or before the KP CB Closing;
- (f) KP Global shall have obtained any and all approvals, including but not limited to the record-filing and registration with the National Development and Reform Commission of the PRC, necessary for consummation of the transactions contemplated under the KP Subscription Agreement and under the other KP CB Transaction Documents that are required to be obtained on or prior to the KP CB Closing;
- (g) all corporate and other proceedings in connection with the transactions contemplated under the KP Subscription Agreement and under the other KP CB Transaction Documents on the KP CB Closing and all documents and instruments incidental to such transactions shall be satisfactory in substance and form to the Company, and the Company shall have received all copies of such documents as it may request;
- (h) there shall not have been governmental authority or other person that has (i) requested any information in connection with or instituted any action or investigation to restrain, prohibit or otherwise challenge the issue of the KP Convertible Bonds to the Company or the other transactions contemplated by the KP CB Transaction Documents to which the Company is a party; (ii) threatened to take any action as a result of or in anticipation of the issue of the KP Convertible Bonds to the Company or the other transactions contemplated by the KP CB Transaction Documents to which the Company is a party; or (iii) proposed or enacted any applicable laws which would prohibit, restrict or delay the issue of the KP Convertible Bonds to the Company, the other transactions contemplated by the KP CB Transaction Documents to which the Company is a party, or the operation of KP Global or any other KP Global Group member after the KP CB Closing;
- (i) there shall not have been injunction, restraining order or other order or any other legal or regulatory restraint or prohibition having been issued or made by any court of competent jurisdiction or governmental authority in effect precluding or prohibiting consummation of any part of the transactions contemplated under the KP CB Transaction Documents;

## LETTER FROM THE BOARD

- (j) there shall not, since the date of the KP Subscription Agreement, have been any adverse change to the condition (financial or otherwise), results of operations, assets, regulatory status, business and prospects of KP Global, any other company or any other KP Global Group member or the financial markets or economic conditions in general that has had a material adverse effect;
- (k) there shall not have occurred any event that would (had the KP Convertible Bonds already been issued) constitute an event of default; and
- (l) the Company shall have received a written notice from KP Global at least five Business Days prior to the KP CB Closing Date requesting for the completion of the issue of the KP Convertible Bonds in accordance with the terms and conditions of the KP Subscription Agreement.

As at the Latest Practicable Date, none of the conditions above had yet been fulfilled.

### **KP CB Closing**

Completion shall take place on or no later than five Business Days following the fulfilment or waiver of the above conditions precedent or on such other date as may be agreed in writing by the parties.

### **Termination**

If the conditions precedent to the KP Subscription Agreement are not fulfilled or waived by the Company on or before 31 December 2024, the Company may, at its option and without prejudice to the rights of the Company, (i) defer the KP CB Closing to a later date; (ii) proceed to the KP CB Closing in respect of subscription for the KP Convertible Bonds so far as practicable but subject to such conditions as the Company may determine at its sole discretion; or (iii) terminate the KP Subscription Agreement.

## LETTER FROM THE BOARD

### PRINCIPAL TERMS OF THE KP CONVERTIBLE BONDS

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

Issuer:	KP Global
Amount:	An aggregate principal amount of US\$154,000,000
Term:	The eighth anniversary of the KP CB Issue Date.
Interest:	The KP Convertible Bonds bear interest from and including the KP CB Issue Date at 3.5% per annum. Default interest rate is 25% per annum.

According to the terms of the KP Bond Instrument, the interest and the default interest shall be accrued quarterly and accumulate as additional principal amount of the KP Convertible Bonds. Provided in each case, that by delivering a written notice to the KP Global no later than five Business Days prior to the date of payment of interest, a holder of the KP Convertible Bonds may elect for such payment of interest with respect to the KP Convertible Bonds to be made in cash in lieu of payment in kind. During the conversion period, the KP Bondholder may elect to convert part of the principal amount of the KP Convertible Bonds, while the remaining portion (including interest and default interest accrued as additional principal) to be paid in cash upon redemption pursuant to the terms of the KP Convertible Bonds.

Denomination:	The KP Convertible Bonds will be issued in registered form and in denominations of US\$1,000,000 each and integral multiples thereof.
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KP CB Conversion Price:	The initial KP CB Conversion Price is US\$5,988.95 per KP CB Conversion Share, subject to adjustment upon the occurrence of certain prescribed events, namely: (i) consolidation, subdivision or reclassification; (ii) capitalisation of profits or reserves; (iii) capital distributions; (iv) payment of dividends to its shareholders; (v) rights issues of its shares or options over its shares; (vi) rights issues of other securities; (vii) issues of other additional shares or the grant of such options, warrants or other rights; (viii) issues that carry rights of conversion, exchange or subscription for its shares; (ix) modification of rights of conversion etc.; (x) other offers to its shareholders; or (xi) other events where KP Global otherwise determines that an adjustment should be made to the KP CB Conversion Price.
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## LETTER FROM THE BOARD

The initial KP CB Conversion Price of US\$5,988.95 per KP CB Conversion Share was determined after arm's length negotiations between KP Global and the Company with reference to the amount owed by KP Global to the Company as at the end of March 2024 after early redemption of the K-Swiss Convertible Bonds. The Directors considered that the initial KP CB Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

- Conversion period: The KP Convertible Bonds shall be convertible at any time on or after the KP CB Issue Date up to the close of business on the KP CB Maturity Date or if the KP Convertible Bonds shall have been called or put for redemption at any time on or after the KP CB Issue Date, then up to the close of business on a date no later than two Business Days prior to the date fixed for redemption.
- Transferability: Absent any redemption trigger events as stated in the terms and conditions of the KP Convertible Bonds, the KP Convertible Bonds may not, without the written consent of the KP Global, be transferred by the KP Bondholder to any person who is not an affiliate of the KP Bondholder.
- Redemption: Unless previously redeemed, converted or purchased and cancelled, KP Global will redeem each KP Convertible Bond at an amount equal to the principal amount, or such other amount in accordance with the terms of the KP Bond Instrument, together with accrued interest and all other amounts accrued or outstanding under the KP Convertible Bond which remain unpaid on the KP CB Maturity Date.
- Events of default: If any of the following events has occurred, the KP Bondholders may, acting by ordinary resolution, by notice in writing given to KP Global not less than 10 Business Days' notice, declare the relevant KP Convertible Bond and the relevant KP Convertible Bond shall become, immediately due and payable, whereupon such KP Convertible Bond shall become immediately due and payable by KP Global of the principal amount:
- (a) a default is made by KP Global in the payment of any principal, interest, additional interest, premium or any other amount due in respect of the KP Convertible Bonds within five Business Days from the due date for payment (except where failure to pay is caused by administrative or technical error and payment is made within 10 Business Days of its due date);



## LETTER FROM THE BOARD

- (b) failure by KP Global to deliver its shares as and when such shares are required to be delivered following conversion of a KP Convertible Bond and such failure continues for a period of 10 Business Days;
- (c) KP Global fails to perform or comply with one or more of its other obligations in the KP Convertible Bonds in any material respect, which default is incapable of remedy or, if capable of remedy, is not remedied within 21 days after written notice of such default shall have been given to KP Global by a KP Bondholder;
- (d) KP Global or any of its principal subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they fall due or takes any proceeding under any law for readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors generally or by reason of actual financial difficulties commences negotiation with its creditors generally with a view to rescheduling any or all of its debts, or proceedings for any of the foregoing are initiated and are not discharged or stayed within a period of 30 days;
- (e) any final judgment or order for the payment of money in excess of US\$15,000,000 (or the equivalent thereof) in the aggregate for all such final judgments or orders shall be rendered against KP Global or any principal subsidiary and shall not be bonded, paid or discharged for a period of 30 days following such judgment during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

## LETTER FROM THE BOARD

- (f) (i) any other present or future indebtedness of KP Global or any of its subsidiaries for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of any event of default or the like (howsoever described); or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period; or (iii) KP Global or any of its subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above have occurred equals or exceeds US\$15,000,000 or its equivalent (as reasonably determined on the basis of the middle spot rate for the relevant currency against the US\$ as quoted by any leading bank on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity);
- (g) it has been finally adjudicated by a court of competent jurisdiction, evidenced by a final non-appealable order, that (i) any misrepresentation, misstatement, inadequate disclosure or omission which has a material impact on the consolidated financial statements of KP Global as a whole; or (ii) falsification or fraudulent representation (including, without limitation, improper revenue recognition, manipulation of liabilities or expenses, assets overstatement) of the books, records or accounts of KP Global and its subsidiaries has been made;

## LETTER FROM THE BOARD

- (h) any change of control where (a) the controlling shareholder of KP Global ceases, directly or indirectly, to be able to exercise or control the exercise of 30% or more of the voting rights attaching to the issued share capital of KP Global; (b) the controlling shareholder of KP Global ceases to be the single largest shareholder of KP Global; (c) any person or persons (other than the controlling shareholder of KP Global), acting individually or together, directly or indirectly, acquires 30% or more of the voting rights attaching to the issued share capital of KP Global; or (d) KP Global consolidates with or merges into or sells or transfers all or substantially all of the assets of KP Global to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring 30% or more of the voting rights attaching to the issued share capital of KP Global or the successor entity (the “**Change of Control**”);
- (i) (a) any recapitalisation, reclassification or change of KP Global’s shares, (b) any merger of KP Global, including any sale, lease or other transfer to a third party of the consolidated assets of KP Global and its subsidiaries substantially as an entirety, or (c) any statutory exchange, in each case, as a result of which the KP Global’s shares would be converted into, or exchanged for stock, other securities, other property or assets (including cash or any combination therefore) (the “**Share Exchange Event**”);
- (j) Mr. Ding being guilty of or commit any serious misconduct including: (i) having committed a breach of any of the relevant terms of the KP Subscription Agreement or the KP Bond Instrument (as the case may be); (ii) having suffered from a mental disorder incapable of managing his/her own affairs; (iii) being guilty of persistent insobriety or be convicted of any criminal offence or be otherwise prohibited by law from fulfilling his/her duties hereunder; (iv) having refused to carry out any lawful order given to him/her by KP Global’s board; or (v) having acted or conducted himself/herself in a manner which would be prejudicial to the best interests of KP Global or any of its principal subsidiary;

## LETTER FROM THE BOARD

- (k) any actual breach or violation of the Foreign Corrupt Practices Act 1977, as amended, or any other applicable anti-corruption legislation in any material respect;
- (l) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of KP Global or any of its principal subsidiaries, which is material to KP Global and its subsidiaries as a whole, and is not discharged or stayed within 30 days;
- (m) an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of KP Global or any of its principal subsidiaries, or KP Global or any of its principal subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by a special resolution of the KP Bondholders;
- (n) an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the property, assets or revenues of KP Global and its subsidiaries as a whole and is not discharged within 30 days;
- (o) it is or will become unlawful for KP Global to perform or comply with its obligations under the KP Convertible Bonds in any material respect;
- (p) any step is taken by any person that could reasonably be expected to result in the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of KP Global or any of its subsidiaries, which is material to KP Global and its subsidiaries as a whole; or

## LETTER FROM THE BOARD

- (q) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing or registration) at any time required to be taken, fulfilled or done in order: (i) to enable KP Global lawfully to exercise its rights and perform and comply with its obligations under the KP Convertible Bonds; or (ii) to ensure that these obligations are legally binding and enforceable, is not taken, fulfilled or done within 10 Business Days after written notice of such non-action shall have been given to KP Global by a KP Bondholder.

Major events:	A Change of Control or Share Exchange Event constitutes major events under the terms of the KP Bond Instrument.
Redemption on major events:	In the event of a major event, each relevant KP Bondholder shall have the right, at such KP Bondholder's option, to require KP Global to redeem, in whole or in part, such KP Bondholder's KP Convertible Bonds on the 10th Business Day after a major event put notice has been given to the KP Bondholders by KP Global.
Redemption trigger events:	If any of the redemption trigger events as stated in the terms and conditions of the KP Convertible Bonds has occurred, the KP Bondholder at its discretion may at any time thereafter give notice to KP Global that the KP Convertible Bonds are, and they shall immediately become, due and repayable, at a corresponding redemption price under the terms and conditions of the KP Convertible Bonds.
Early Redemption by KP Bondholder:	Subject to the redemption on major event or certain event of default, at any time on or after the date falling on the fifth anniversary of (or, for the avoidance of doubt, commencing from the 61st month from) the KP CB Issue Date, the KP Bondholder may, having given not less than ten business days' notice to KP Global, redeem, in whole or in part, the KP Convertible Bonds at an amount equal to 100% of the principal amount together with accrued interest and all other amounts accrued or outstanding under the KP Convertible Bonds which remain unpaid on the date fixed for redemption on an event of default or in the redemption notice, as the case may be.

## LETTER FROM THE BOARD

Ranking: The KP Convertible Bonds constitute direct, unsubordinated, unconditional and secured obligations of KP Global and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of KP Global under the KP Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws and subject to the KP Bond Instrument, are secured by the Floating Charge over all the property, assets and rights of the KP Global Group created by KP Global in favour of the KP Bondholder.

The KP CB Conversion Shares will be fully-paid and in all respects rank *pari passu* with the issued and fully-paid shares of KP Global.

Listing: No application will be made for the listing of the KP Convertible Bonds or the KP CB Conversion Shares on the Stock Exchange or any other stock exchange.

The terms of the KP Convertible Bonds, including the interest rate, conversion price and bond maturity date, were determined upon negotiation on arm's length basis by reference to the terms of comparable convertible bonds on the market and various other factors.

The interest rate of the KP Convertible Bonds, being 3.5% per annum, was determined mainly based on (i) the purpose of the KP Convertible Bonds offsetting the outstanding amount due from KP Global (such amount being unsecured and interest free), and the said bonds being secured by the Floating Charge over all the property, assets and rights of the KP Global Group of value approximately US\$397.6 million as at 31 December 2023 created by KP Global in favour of the Company with an interest rate of 3.5% per annum; (ii) the effective interest rates in relation to loans provided by external financial institutions to the Group for the year ended 31 December 2023 falling between approximately 2.3% and 6.9% and was determined with reference to, among others, Secured Overnight Financing Rate plus 1.2%, the Hong Kong Inter-bank Offered Rate (“HIBOR”) plus 1.1% to 1.45% and the 1-year Loan Prime Rate less 0.45% to 1.15%. As at the Latest Practicable Date, the HIBOR was 4.6% and the 1-year Loan Prime Rate was 3.35%; and (iii) indication from the U.S. Federal Reserve of the United States that it may consider lowering its benchmark interest rate under the appropriate environment in the foreseeable future, and expected movement of the base interest rate set by the Hong Kong Monetary Authority in line with which, thus expected decrease in HIBOR over time, in addition to the 1-year and 5-year Loan Prime Rate decrease by 30 basis points and 45 basis points since 1 January 2023 up to the Latest Practicable Date and further decrease which may materialise.

## LETTER FROM THE BOARD

Tenure of the KP Convertible Bonds of eight years was determined with reference to the following factors: (i) the tenure allows KP Global a reasonable term to turnaround its business and operations given that KP Global has been making a loss since acquiring the brands “K-Swiss” and “Palladium” in 2019. Given that the market is unpredictable and the business performance of KP Global is subject to short-term fluctuations, a shorter tenure may not allow the brands to fully reflect their potential and hence a relatively longer tenure which is still within the range of the comparable convertible bonds on the market is being agreed between the parties; (ii) the Company will own 30% of KP Global’s issued share capital should conversion of the KP Convertible Bonds be exercised in full and the tenure offers the Company sufficient time to observe and evaluate whether to exercise its conversion right under the KP Convertible Bonds if it is considered to be in the interests of the Company and its then Shareholders as a whole; and (iii) the KP Convertible Bonds bear an interest rate of 3.5% per annum.

Based on the aggregate principal amount of US\$154,000,000 and 25,714 KP CB Conversion Shares to be issued upon full conversion of the KP Convertible Bonds (excluding any type of interests accrued) (which represents 30% of the enlarged issued share capital of KP Global), the initial KP CB Conversion Price is US\$5,988.95 per KP CB Conversion Share (subject to adjustments) was determined after arm’s length negotiations between the Ding Family (who will own KP Global after the completion of the Disposal) and the Company with reference to the amount owed by KP Global to the Company as at the end of March 2024 and after early redemption of the K-Swiss Convertible Bonds. The KP Convertible Bonds shall be convertible at any time on or after the KP CB Issue Date up to the close of business on the KP CB Maturity Date or if the KP Convertible Bonds shall have been called or put for redemption at any time on or after the KP CB Issue Date, then up to the close of business on a date no later than two Business Days prior to the date fixed for redemption. In this connection, as the KP Bondholder, the Company shall monitor the financial position and performance of KP Global from time to time after the completion of the Disposal. Furthermore, the Company shall perform quantitative and qualitative analysis to evaluate the then financial position and performance of KP Global as well as its business operations and prospects (the “**Evaluation**”) and determine whether it is in the interests of the Company and its then Shareholders to exercise its conversion right at the KP CB Conversion Price. The Evaluation, including the relevant information and analysis thereof together with the results, will be prepared by the management of the Company, and be submitted to the Board for their consideration. In the event that, after considering the relevant analysis and results of the Evaluation, the Board (with the interested member(s) of the Board to be abstained) decides that it is in the interests of the Company and its then Shareholders to exercise its conversion right at the KP CB Conversion Price, only then would the Company exercise its conversion rights thereof (the “**Internal Control Procedures**”). In this connection, the Internal Control Procedures, if implemented, will effectively scrutinise the timing to exercise the conversion right taking into account the KP CB Conversion Price, if at all, and can safeguard the interests of the Company and the then Shareholders as a whole.

## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE OF KP GLOBAL

Upon full conversion of the KP Convertible Bonds at the initial KP CB Conversion Price, a total of 25,714 KP CB Conversion Shares will be issued, representing approximately 42.86% of the issued share capital of KP Global upon the issue of the KP Convertible Bonds and 30% of the issued share capital of KP Global as enlarged by the issue of the KP CB Conversion Shares.

The following table sets out the shareholding structure of KP Global, assuming the Disposal has been completed, (i) immediately upon issue of the KP Convertible Bonds; and (ii) immediately upon full conversion of the KP Convertible Bonds, assuming that there is no other change in the issued shares of KP Global from the Latest Practicable Date (for illustration purposes only).

Shareholders of KP Global	Immediately upon issue of the KP Convertible Bonds		Immediately upon full conversion of the KP Convertible Bonds (excluding any type of interests accrued)		Immediately upon full conversion of the KP Convertible Bonds (including interest of 3.5% per annum accrued)		Immediately upon full conversion of the KP Convertible Bonds (including default interest of 25% per annum accrued)	
	<i>Number of shares of</i>		<i>Number of shares of</i>		<i>Number of shares of</i>		<i>Number of shares of</i>	
	<i>KP Global</i>	<i>Approx. %</i>	<i>KP Global</i>	<i>Approx. %</i>	<i>KP Global</i>	<i>Approx. %</i>	<i>KP Global</i>	<i>Approx. %</i>
Ding Shun Investment The Company	60,000	100.0	60,000	70.0	60,000	63.8	60,000	25.1
	-	-	25,714	30.0	33,981	36.2	178,935	74.9
Total	<u>60,000</u>	<u>100.0</u>	<u>85,714</u>	<u>100.0</u>	<u>93,981</u>	<u>100.0</u>	<u>238,935</u>	<u>100.0</u>

### REASONS FOR THE SUBSCRIPTION OF THE KP CONVERTIBLE BONDS

As mentioned in the paragraph headed “Background” above, since KP Global will cease to be a subsidiary of the Company after completion of the Disposal, after the redemption of K-Swiss Convertible Bonds, the amount to be owed by KP Global to the Company after the completion of the K-Swiss CB Redemption and the Disposal will amount to US\$154 million, which includes (i) the accumulated losses since the Acquisition in 2019 combined with its value of the capital expenditure and working capital as at the end of March 2024; and (ii) the amount to be paid by the Company for the early redemption of the K-Swiss Convertible Bonds. Instead of KP Global repaying this outstanding amount to the Company, the Company intends to offset such outstanding amount from KP Global with the subscription of the KP Convertible Bonds. In the event that the Company does not convert the KP Convertible Bonds during the conversion period, the Company shall be entitled to collect the debt in the amount of US\$154,000,000 together with interest accrued. Furthermore, the KP Convertible Bonds shall provide the Group with upside potentials through participating in the then financial performance and growth in value of KP Global during the tenure of the KP Convertible Bonds by exercising its conversion rights thereunder, if and when considered appropriate.



## LETTER FROM THE BOARD

In view of the above, the Directors are of the view that the terms and conditions of the KP Subscription Agreement and the other KP CB Transaction Documents are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

### LISTING RULES IMPLICATIONS

As KP Global will be wholly owned by the Ding Family through Ding Shun Investment upon completion of the Disposal, KP Global will become a connected person of the Company, the subscription of the KP Convertible Bonds by the Company will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. The subscription of the KP Convertible Bonds is subject to the announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The subscription of the KP Convertible Bonds also constitutes financial assistance by the Company to KP Global under Rule 14.04(1)(e) of the Listing Rules. As one or more of the applicable percentage ratios under the Listing Rules in respect of the Share Purchase Agreement exceed 5% but is less than 25%, the subscription of the KP Convertible Bonds also constitutes a discloseable transaction for the Company that is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Since each of Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong has material interests in the subscription of KP Convertible Bonds, they have abstained from voting on the board resolution approving the subscription of the KP Convertible Bonds and the transactions contemplated thereunder in accordance with the requirements of the Articles and the Listing Rules.

#### (4) WAIVER IN RESPECT OF DEED OF NON-COMPETE

On 7 May 2008, each of the then controlling shareholders of the Company, as covenantors, entered into the Deed of Non-compete in favour of the Company, pursuant to which each of the controlling shareholders of the Company concerned has undertaken to the Company (for itself and for the benefit of its subsidiaries) that it or he or she would not, and would procure that its or his or her associates (except any members of the Group) would not, during the restricted period set out below, directly or indirectly, either on its or his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time (the "**Restricted Business**").

Such non-compete undertaking does not apply to:

- (a) any interests in the shares of any member of the Group; or

## LETTER FROM THE BOARD

- (b) interests in the shares of a company other than the Group which shares are listed on a recognised stock exchange provided that:
  - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
  - (ii) the total number of the shares held by the controlling shareholders and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such controlling shareholders and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the controlling shareholders and their respective associates in aggregate; or
  - (iii) the controlling shareholders and/or their respective associates do not have the control over the board of such company.

The "restricted period" stated in the Deed of Non-compete refers to the period during which (i) the Shares remain listed on the Stock Exchange; and (ii) in relation to each controlling shareholder, it or he or she or its or his or her associate holds an equity interest in the Company; and (iii) the relevant controlling shareholders and/or their respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company.

Since the KP Global Group is the business operator and the ultimate owner of the "K-Swiss" and "Palladium" brands, and given the Group is currently engaged in the design, development, manufacturing, sales, marketing and brand management of various sports brands, upon completion of the Disposal, the business of KP Global Group may be in competition with the business of the Group.

As Mr. Ding and Ms. Ding Mei Qing, being the then controlling shareholders who executed the Deed of Non-compete, own 67% and 21% of Ding Shun Investment respectively, and Ding Shun Investment will become the sole shareholder of KP Global upon completion of the Disposal, Mr. Ding and Ms. Ding Mei Qing have requested from the Company for the Waiver from strict compliance by the covenantors under the Deed of Non-compete in respect of the non-competition restrictions that apply to the business of the "K-Swiss" and "Palladium" brands being carried out by KP Global.

### **Reasons for the proposed grant of the Waiver**

The Company is a leading multi-brand sportswear company, which is principally engaged in the design, development, manufacturing, sales, marketing and brand management of sports products covering footwear, apparel and accessories for adults and children.

## LETTER FROM THE BOARD

The Group has a diverse brand portfolio encompassing the core Xtep brand, K-Swiss, Palladium, Saucony and Merrell which strategically target the mass market, athleisure and professional sports segments as follows:

<b>Brand Nature</b>	<b>Signature Brands</b>
Mass market	Xtep
Athleisure	K-Swiss, Palladium
Professional sports	Saucony, Merrell

The mass market segment, mainly represented by the Xtep brand, aims to offer value-for-money professional sports footwear, apparels and accessories, with a focus on running. Its major target market is the PRC. The vision of the Xtep brand is to become the preferred brand among mass market runners, expanding its target audience beyond elite athletes.

The athleisure segment is represented by the K-Swiss and Palladium brands. The athleisure segment mainly targets customers looking for a blend of athletic and leisure wear, designed to be suitable for both exercising and everyday wear. Among the athleisure brands, K-Swiss offers footwear, apparel, and accessories for athletic, sports, and fitness activities, as well as casual wear, whereas Palladium is a well-known boot brand, famous for its signature military boots and canvas shoes.

The professional sports segment comprises two brands: Saucony and Merrell. Saucony is a performance running and lifestyle brand, offering running shoes, apparel and accessories in the higher-end market and catering to a more sophisticated customer base. Merrell offers a wide range of outdoor footwear and apparel, catering to hikers, runners, and those with an active lifestyle. The major market of the Saucony and Merrell brands is in Greater China.

Although there are differentiations among the Group's mass market, athleisure and professional sports segments as stated above, all of them are within the sportswear market. Also, sports footwear is a the major products of all these brands. With the convergence of sportswear and fashion, the Group's Xtep, Saucony and Merrel brands also offer sportswear products with emphasis not only on functionality, but also style and comfort. Accordingly, there is inevitably a certain degree of overlapping in the market, products and target customers between the brands owned by KP Global (i.e. K-Swiss and Palladium) and those remained to be owned by the Company (i.e. Xtep, Saucony and Merrel) after the completion of the Disposal, and the business of the KP Global Group may be in competition with the business of the Group.

## LETTER FROM THE BOARD

The Waiver would facilitate the completion of the Disposal, as the absence of the Waiver would prevent Mr. Ding and Ms. Ding Mei Qing (being two of the covenantors under the Deed of Non-compete), and Mr. Ding Ming Zhong and Ding Shun Investment (each being an associate of Mr. Ding and Ms. Ding Mei Qing) from proceeding with the Disposal, as they are not permitted to own or operate the businesses under the KP Global Group due to the existing Deed of Non-compete.

Although the business of the “K-Swiss” and “Palladium” brands have been struggling over the years, it is undeniable that these two brands have their own unique market position and customer base in China. It is expected that the business of the “K-Swiss” and “Palladium” brands could slowly recover and become successful in the future.

Pursuant to the KP Subscription Agreement, the Company has conditionally agreed to subscribe for and KP Global has conditionally agreed to issue the KP Convertible Bonds, which grants the Company the conversion rights in relation to the KP CB Conversion Shares, thus allowing the Company the opportunity to participate in the upside of KP Global in the future in the event that the businesses of KP Global turnaround, subject to the then decision of the Company. The Company will have the opportunity to share the success of the “K-Swiss” and “Palladium” brands in the future and to eliminate the ongoing impact on its profitability and cash flows as a result of the losses incurred by the business under the KP Global Group.

The Company has adopted the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders:

- (i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-compete undertaking by the controlling shareholders under the Deed of Non-compete;
- (ii) the controlling shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-compete;
- (iii) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the controlling shareholders under the Deed of Non-compete in the annual reports of the Company;
- (iv) the controlling shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-compete in the annual report of the Company;

## LETTER FROM THE BOARD

- (v) the controlling shareholders who are also Directors (i.e. Mr. Ding and Ms. Ding Mei Qing) will operate in accordance with the Articles which require the interested Director not to vote (not be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested except in certain circumstances expressly provided in the Articles;
- (vi) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with the Company's interest and absent himself/herself from the Board meetings on matters in which such Director or any of his close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors; and
- (vii) pursuant to the Corporate Governance Code set out in Appendix C1 to the Listing Rules, the Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at the Company's cost.

In order to allow KP Global to continue the business of the "K-Swiss" and "Palladium" brands under the ownership of the Ding Family, the Waiver will need to be granted.

Further, the Company will be entering into a Transition Services Agreement with KP Global, pursuant to which, the Group will provide certain transition services to KP Global at a service fee. This service arrangement will provide the Group with other form of stable income.

As such, the Directors are of the view that the granting of the Waiver is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **Listing Rules Implications**

As each of Mr. Ding and Ms. Ding Mei Qing is a Director and controlling shareholder of the Company and therefore a connected person of the Company, the grant of the Waiver will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. The grant of the Waiver is subject to the announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since Mr. Ding and Ms. Ding Mei Qing has material interests in the Waiver, they have abstained from voting on the board resolution approving the Waiver in accordance with the requirements of the Articles and Listing Rules. Mr. Ding Ming Zhong, being family member of Mr. Ding and Ms. Ding Mei Qing, has voluntarily abstained from voting on the board resolution approving the Waiver.

## **LETTER FROM THE BOARD**

### **THE EXTRAORDINARY GENERAL MEETING**

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular convening an EGM for the Independent Shareholders to consider and, if thought fit, to approve, among other things, (i) the Share Purchase Agreement and the transaction contemplated thereunder, (ii) the declaration and distribution of the Special Dividend, (iii) the subscription of the KP Convertible Bonds and (iv) the Waiver. As at the Latest Practicable Date, Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong and their respective associates, which were in aggregate interested in 1,380,262,000 Shares (representing approximately 52.19% of the total issued share capital of the Company), will abstain from voting on the proposals at the EGM. To the best of the knowledge, information and belief of the Directors, other than Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong and their respective associates, none of the persons who are required to abstain from voting at the EGM held any Shares as at the Latest Practicable Date.

A form of proxy for use at the EGM is enclosed with this circular; such form of proxy can also be downloaded from the Company's website ([www.xtep.com.hk](http://www.xtep.com.hk)) and the HKEXnews website ([www.hkexnews.hk](http://www.hkexnews.hk)). Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and deposit the same with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the commencement of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and were voting in person at the EGM or any adjournment thereof should you so wish.

### **VOTING BY POLL AT THE EGM**

Pursuant to Rule 13.39(4) of the Listing Rules and Article 66 of the Articles, all votes of the Shareholders at the general meetings must be taken by poll.

### **RECOMMENDATION**

The Company has established the Independent Board Committee comprising all the independent non-executive Directors to advise the Independent Shareholders as to whether the terms of the Proposed Transactions are conducted in the ordinary and usual course of business, fair and reasonable, and whether the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Proposed Transactions at the EGM.

Your attention is drawn to (i) the letter from the Independent Board Committee; and (ii) the letter from the Independent Financial Adviser in this circular. The Directors (including all the independent non-executive Directors after reviewing and considering the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

## LETTER FROM THE BOARD

### ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

### CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from Monday, 19 August 2024 to Friday, 23 August 2024, both days inclusive, during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the EGM is Friday, 23 August 2024. In order to be eligible to attend and vote at the forthcoming EGM of the Company to be held on Friday, 23 August 2024, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 16 August 2024.

Yours faithfully,  
For and on behalf of the Board of  
**Xtep International Holdings Limited**  
**DING Shui Po**  
*Chairman*



**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)**

2 August 2024

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION —  
DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL  
OF KP GLOBAL;**
- (2) PROPOSED DECLARATION OF SPECIAL DIVIDEND;**
- (3) DISCLOSEABLE AND CONNECTED TRANSACTION —  
ISSUE OF CONVERTIBLE  
BONDS IN PRINCIPAL AMOUNT OF US\$154,000,000  
BY KP GLOBAL TO THE COMPANY;  
AND**
- (4) CONNECTED TRANSACTION — WAIVER IN RESPECT  
OF DEED OF NON-COMPETE**

We refer to the circular of the Company dated 2 August 2024 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders on the terms of the Share Purchase Agreement, the Special Dividend, the KP Convertible Bonds and the Waiver. Details of the Share Purchase Agreement, the Special Dividend, the KP Convertible Bonds and the Waiver are set out in the section headed “Letter from the Board” of the Circular. The Independent Financial Adviser has been appointed to advise the Independent Shareholders and us in this regard. Details of the advice and the principal factors and reasons the Independent Financial Adviser has taken into consideration in rendering its advice are set out in the section headed “Letter from the Independent Financial Adviser” of the Circular. Your attention is also drawn to the information set out in the Circular.



**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the terms of the Proposed Transactions and the advice of the Independent Financial Adviser, we are of the opinion that although the Proposed Transactions are not in the ordinary and usual course of business of the Group, the Proposed Transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms of the Proposed Transactions are fair and reasonable so far as the Shareholders are concerned.

We, therefore, recommend that you vote in favour of all the resolutions to be proposed at the EGM.

Yours faithfully

For and on behalf of the Independent Board Committee of  
**Xtep International Holdings Limited**  
**Dr. Bao Ming Xiao, Dr. Wu Ka Chee, Davy, Dr. Chan Yee Wah**  
*Independent Non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders in relation to the Proposed Transactions for inclusion in this circular.*



**紅日資本有限公司**  
**RED SUN CAPITAL LIMITED**

Room 310, 3/F.,  
China Insurance Group Building,  
141 Des Voeux Road Central,  
Hong Kong

Tel: (852) 2857 9208  
Fax: (852) 2857 9100

2 August 2024

*To: The Independent Board Committee and the Independent Shareholders*

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION —  
DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL  
OF KP GLOBAL;**
- (2) PROPOSED DECLARATION OF SPECIAL DIVIDEND;**
- (3) DISCLOSEABLE AND CONNECTED TRANSACTION —  
ISSUE OF CONVERTIBLE  
BONDS IN PRINCIPAL AMOUNT OF US\$154,000,000  
BY KP GLOBAL TO THE COMPANY;**
- AND**
- (4) CONNECTED TRANSACTION — WAIVER IN RESPECT  
OF DEED OF NON-COMPETE**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement, the Special Dividend, the KP Convertible Bonds, the Waiver and the transactions contemplated thereunder (the “**Proposed Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 2 August 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

### The Share Purchase Agreement

On 9 May 2024 (after trading hours), the Company and Ding Shun Investment entered into the Share Purchase Agreement pursuant to which the Company has conditionally agreed to sell, and Ding Shun Investment has conditionally agreed to acquire, all the issued share capital of KP Global at the consideration of US\$151,000,000 (the “**Disposal Consideration**”).

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### **Proposed declaration of Special Dividend**

Subject to the completion of the Disposal and the Independent Shareholders' approval at the EGM, in appreciation of the Shareholders' long term support, the Board recommended the payment of a Special Dividend of HK\$0.447 per Share in cash to all those Shareholders who are Shareholders of record on the Special Dividend Record Date (i.e. 9 September 2024). Based on the 2,644,517,925 Shares in issue as at the Latest Practicable Date, it was expected that a Special Dividend in an aggregate amount of approximately HK\$1,182 million (equivalent to approximately US\$151,000,000) will be paid.

The proceeds from the Disposal will be used for the declaration and distribution of the Special Dividend.

### **Issue of KP Convertible Bonds to the Company**

On 9 May 2024, KP Global entered into the KP Subscription Agreement with the Company, pursuant to which the Company has conditionally agreed to subscribe for and KP Global has conditionally agreed to issue the KP Convertible Bonds at an aggregate principal amount of US\$154,000,000.

### **Waiver in respect of Deed of Non-compete**

Since the KP Global Group is the business operator and the ultimate owner of the "K-Swiss" and "Palladium" brands, and given the Group is currently engaged in the design, development, manufacturing, sales, marketing and brand management of various sports brands, upon completion of the Disposal, the business of KP Global Group may be in competition with the business of the Group.

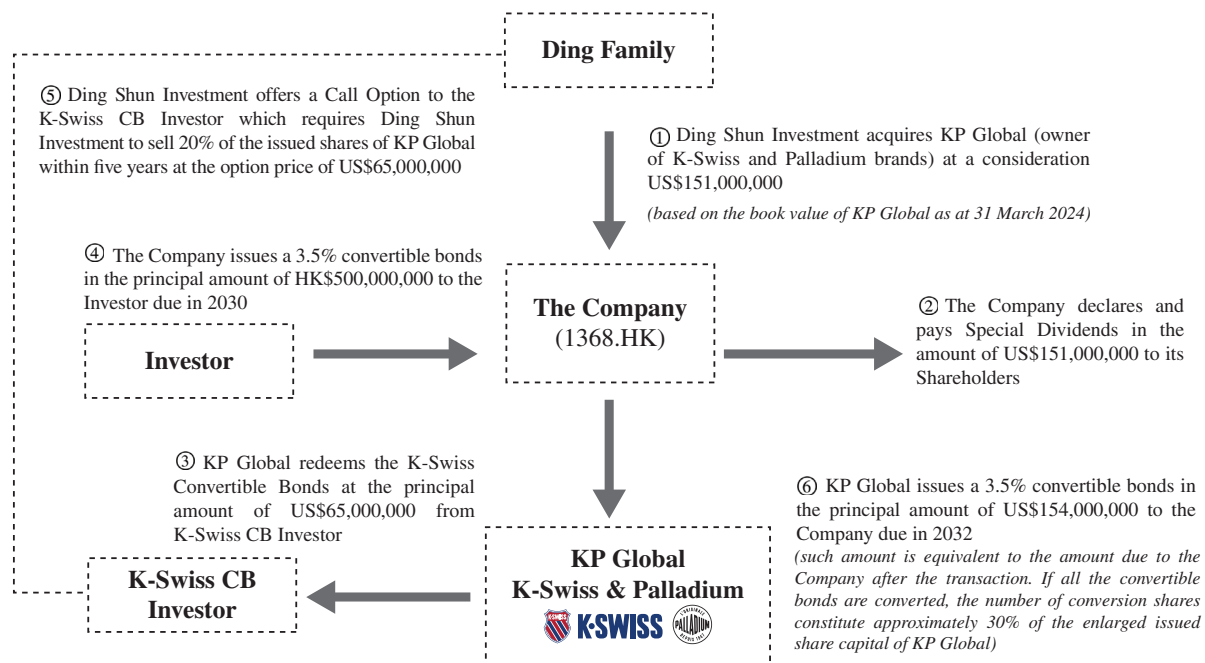
### **Other transactions**

As set out in the announcement of the Company dated 9 May 2024 (the "**Announcement**"), the following agreements were also entered into on 9 May 2024, namely (i) the K-Swiss Convertible Bonds Redemption Agreement, entered into between KP Global and the K-Swiss CB Investor, pursuant to which KP Global agreed to redeem the K-Swiss Convertible Bonds at the aggregate redemption price of US\$65,000,000; (ii) the Xtep Subscription Agreement, entered into between the Company with the Investor, pursuant to which the Investor has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Xtep Convertible Bonds in the aggregate principal amount of HK\$500,000,000, subject to the terms and conditions set out in the Xtep Subscription Agreement; and (iii) the Call Option Deed, executed by Ding Shun Investment, Mr. Ding and the K-Swiss CB Investor, pursuant to which Ding Shun Investment shall grant to the K-Swiss CB Investor the Call Option, the exercise of which shall require Ding Shun Investment to sell all of the Option Shares to the K-Swiss CB Investor at an aggregate option price of US\$65,000,000 within five years from the date of completion of the Disposal. Please refer to the section headed "Background" in the Letter from the Board for further details.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### Summary of the transactions within the Group and with the Ding Family

The following chart provides a summary of the transactions, including the Proposed Transactions, within the Group and with the Ding Family for illustrative purpose.



### Listing Rules implications

As at the Latest Practicable Date, each of Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong was a Director and was interested in 49.24%, 46.59% and 46.62% of the issued share capital of the Company, respectively, and thus a connected person of the Company, respectively. In addition, as KP Global will be wholly owned by the Ding Family through Ding Shun Investment upon completion of the Disposal, KP Global will become a connected person of the Company.

As set out in the Letter from the Board, (i) the transaction contemplated under the Share Purchase Agreement; (ii) the subscription of the KP Convertible Bonds by the Company; and (iii) the grant of the Waiver, constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Share Purchase Agreement exceed 5% but is less than 25%, the transaction contemplated under the Share Purchase Agreement constitutes (i) a discloseable transaction for the Company that is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) a connected transaction for the Company that is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

As set out in the Letter from the Board, the subscription of the KP Convertible Bonds and the grant of the Waiver are also subject to the announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The subscription of the KP Convertible Bonds also constitutes financial assistance by the Company to KP Global under Rule 14.04(1)(e) of the Listing Rules. As one or more of the applicable percentage ratios under the Listing Rules in respect of the Share Purchase Agreement exceed 5% but is less than 25%, the subscription of the KP Convertible Bonds also constitutes a discloseable transaction for the Company that is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Furthermore, Transition Services Agreement will be entered into between the Company and KP Global in relation to the provision of certain transition services by the Company to KP Global.

In this connection, each of Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong and their respective associates shall abstain from voting on the relevant resolutions approving the Proposed Transactions at the EGM.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all independent non-executive Directors, namely Dr. Bao Ming Xiao, Dr. Wu Ka Chee, Davy and Dr. Chan Yee Wah, has been established to advise the Independent Shareholders as to whether the terms of the Proposed Transactions are conducted in the ordinary and usual course of business, fair and reasonable, and whether the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Proposed Transactions at the EGM.

We have been appointed as the independent financial adviser and approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### OUR INDEPENDENCE

We did not have any business relationship with or interest in the Ding Family, KP Global, the K-Swiss CB Investor, Hillhouse, the Investor or the Company and its directors, subsidiaries, holding company(ies) or substantial shareholder(s) that could reasonably be regarded as relevant in assessing our independence as at the Latest Practicable Date. Save for our appointment as the independent financial adviser, there were no engagements between Red Sun Capital Limited and the Company in the past two years from the date of this letter. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

### BASIS OF OUR ADVICE

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular. In addition, pursuant to the relevant Listing Rules, we have taken reasonable steps to enable ourselves to reach an informed view so as to provide a reasonable basis for our opinion.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group, KP Global, the Ding Family, the K-Swiss CB Investor, Hillhouse, the Investor and, where applicable, their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the transactions contemplated under the Proposed Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following information:

#### 1. Background of the Group and parties to the Proposed Transactions

##### *1.1 Background and financial information of the Group*

As set out in the Letter from the Board, the Company is a leading multi-brand sportswear company listed on the Main Board of the 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.

We herewith set out a summary of the financial information of the Group for the years ended 31 December 2021 and 2022 as extracted from the annual report of the Group for the year ended 31 December 2022 (the “**2022 Annual Report**”) and the financial information for the years ended 31 December 2023 as extracted from the annual report of the Group for the year ended 31 December 2023 (the “**2023 Annual Report**”), respectively:

##### *Summary of the Group’s consolidated statements of profit and loss*

	<b>For the year ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	10,013,239	12,930,385	14,345,508
— Mass market (signature brand, Xtep)	8,841,266	11,127,864	11,947,344
— Athleisure (including signature brands, mainly K-Swiss and Palladium)	970,957	1,402,472	1,602,633
— Professional sports (including signature brands, Saucony and Merrell)	201,016	400,049	795,531
Cost of sales	(5,835,321)	(7,638,676)	(8,295,833)
Gross profit	4,177,918	5,291,709	6,049,675
Operating profit	1,396,166	1,464,284	1,579,902
Profit before tax	1,286,820	1,360,987	1,449,194
Profit for the year attributable to ordinary equity holders of the Company	908,339	921,694	1,030,009

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Financial performance for the year ended 31 December 2022 as compared to that for the year ended 31 December 2021*

As set out in the 2022 Annual Report, for the year ended 31 December 2022, the Group recorded revenue of approximately RMB12,930.4 million, representing an increase of approximately 29.1% as compared to approximately RMB10,013.2 million recorded for the year ended 31 December 2021. Such increase was mainly due to the increase in revenue of mass market segment driven by robust sales orders from distributors, and continual growth from e-commerce business and kids business; revenue growth from athleisure signature brands, and revenue growth in professional sports segment attributable to the contributions from Saucony's retail sales particularly in its e-commerce business.

Gross profit increased from approximately RMB4,177.9 million for the year ended 31 December 2021 to approximately RMB5,291.7 million for the year ended 31 December 2022, which was mainly attributable to the increase in revenue from mass market segment, athleisure signature brands and professional sports segment as set out in the preceding paragraph, despite a minor decrease in gross profit margin from approximately 41.7% for the year ended 31 December 2021 to approximately 40.9% for the year ended 31 December 2022. It is also noted that the operating profit margin decreased from approximately 13.9% (approximately 18.2%, -9.0% and -20.0% for the mass market, athleisure and professional sports segment, respectively) for the year ended 31 December 2021 to approximately 11.3% (approximately 15.8%, -13.5% and -4.9% for the mass market, athleisure and professional sports segment, respectively) for the year ended 31 December 2022.

For the year ended 31 December 2022, the Group recorded a profit attributable to ordinary equity holders of the Company of approximately RMB921.7 million as compared with approximately RMB908.3 million for the year ended 31 December 2021. Based on the 2022 Annual Report, in addition to the fluctuations to the revenue and gross profit of the Company as set out in the preceding paragraphs, the financial performance was also affected by the increase in selling and distribution expenses from approximately RMB1,891.5 million for the year ended 31 December 2021 to approximately RMB2,690.2 million for the year ended 31 December 2022, which was mainly attributable to the increase in advertising and promotional costs and staff costs.

*Financial performance for the year ended 31 December 2023 as compared to that for the year ended 31 December 2022*

As set out in the 2023 Annual Report, for the year ended 31 December 2023, the Group recorded revenue of approximately RMB14,345.5 million, representing an increase of approximately 10.9% as compared to approximately RMB12,930.4 million recorded for the year ended 31 December 2022. Such increase was mainly due to the steady increase in revenue of mass market segment driven by increase demand of its running products, and continual growth from kids business, and revenue growth in professional sports segment attributable to increase in demand for Saucony products and its e-commerce business.



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Gross profit increased from approximately RMB5,291.7 million for the year ended 31 December 2022 to approximately RMB6,049.7 million for the year ended 31 December 2023, which was mainly attributable to the increase in revenue from mass market segment and professional sports segment as set out in the preceding paragraph, and the increase in gross profit margin from approximately 40.9% for the year ended 31 December 2022 to approximately 42.2% for the year ended 31 December 2023. In addition, the operating profit margin remained largely stable at approximately 11.3% (approximately 15.8%, -13.5% and -4.9% for the mass market, athleisure and professional sports segment, respectively) for the year ended 31 December 2022 and approximately 11.0% (approximately 15.8%, -11.5% and 1.1% for the mass market, athleisure and professional sports segment, respectively) for the year ended 31 December 2023.

For the year ended 31 December 2023, the Group recorded a profit attributable to ordinary equity holders of the Company of approximately RMB1,030.0 million as compared with approximately RMB921.7 million for the year ended 31 December 2022. Based on the 2023 Annual Report, in addition to the fluctuations to the revenue and gross profit of the Company as set out in the preceding paragraphs, the financial performance was also affected by the increase in selling and distribution expenses from approximately RMB2,690.2 million for the year ended 31 December 2022 to approximately RMB3,369.0 million for the year ended 31 December 2023, which was mainly attributable to the increase in advertising and promotional costs.

### *Summary of the Group's consolidated statements of financial position as at 31 December 2023*

Based on the 2023 Annual Report, as at 31 December 2023, the Group recorded total equity of approximately RMB8,923.3 million (31 December 2022: RMB8,306.7 million), which comprised of total assets of approximately RMB17,325.5 million (31 December 2022: RMB16,493.5 million) and total liabilities of approximately RMB8,402.2 million (31 December 2022: RMB8,186.8 million), respectively. It is also noted that the Group had total bank deposits of approximately RMB1,161.7 million and cash and cash equivalents of approximately RMB3,294.6 million, and a gearing ratio of approximately 20.3% as at 31 December 2023 (31 December 2022: 19.6%), which is defined as the total bank borrowings, which amounted to approximately RMB2,645.0 million as at 31 December 2023 and convertible bonds, which amounted to approximately RMB879.2 million as at 31 December 2023, divided by the Group's total assets.

### ***1.2 Background and financial information of KP Global Group***

As set out in the Letter from the Board, KP Global is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, KP Global was a direct wholly-owned subsidiary of the Company.

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In August 2019, KP Global Brand Limited (formerly Xtep Global Limited, and a wholly-owned subsidiary of KP 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”. The 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 KP Global Group has become the business operator and the ultimate owner of the “K-Swiss” and “Palladium” brands.

With reference to the Letter from the Board, the unaudited consolidated financial information of KP Global Group for the two years ended 31 December 2023 is set out below:

	<b>For the year ended 31 December</b>	
	<b>2022</b>	<b>2023</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Net loss (before taxation)	24,306	31,787
Net loss (after taxation)	23,030	31,762

In addition to the above, based on unaudited consolidated financial information of the KP Global Group provided by the Management, the KP Global Group recorded revenue of approximately US\$210.0 million and US\$226.9 million for each of the years ended 31 December 2022 and 2023, respectively.

As set out in the Letter from the Board, the unaudited consolidated net asset value of KP Global Group as at 31 December 2023 and 31 March 2024 was approximately US\$164,100,000 and US\$151,000,000, respectively. It is expected that, subject to audit, the Group will recognise no material gain or loss of before transaction costs from the Disposal, which is calculated by reference to the net book value of the KP Global Group as at 31 March 2024.

Upon completion of the Disposal, members of the KP Global Group will cease to be subsidiaries of the Company and their financial statements will no longer be consolidated into the Group’s financial statements.

### ***1.3 Background of the Ding Family and Ding Shun Investment***

Mr. Ding is the chairman, executive Director and controlling shareholder of the Company, together with Ms. Ding Mei Qing and Mr. Ding Ming Zhong, each an executive Director, is referred to as the Ding Family in this letter.

As set out in the Letter from the Board, Ding Shun Investment is a company incorporated in British Virgin Islands which is owned by Mr. Ding, Ms. Ding Mei Qing and Mr. Ding Ming Zhong as to 67%, 21% and 12%, respectively. Ding Shun Investment is principally engaged in investment holding.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 2. The Share Purchase Agreement and the Special Dividend

#### 2.1 *Principal terms of the Share Purchase Agreement*

Based on information as set out in the Letter from the Board, we have summarised the principal terms of the Share Purchase Agreement as below:

<b>Date</b>	9 May 2024 (after trading hours)
<b>Parties</b>	The Company, as vendor Ding Shun Investment, as purchaser
<b>Subject matter</b>	Pursuant to the terms of the Share Purchase Agreement, the Company has conditionally agreed to dispose of, and Ding Shun Investment has conditionally agreed to acquire, all the issued share capital of KP Global at the consideration of US\$151,000,000. As at the Latest Practicable Date and immediately prior to the completion of the Share Purchase Agreement, KP Global was wholly owned by the Company.
<b>Consideration</b>	The consideration of US\$151,000,000 shall be paid in cash at completion by Ding Shun Investment to the Company.
<b>Basis of consideration</b>	The consideration of US\$151,000,000 was determined after arm's length negotiations between the parties to the Share Purchase Agreement on normal commercial terms, with reference to the book value of KP Global Group as at 31 March 2024, being approximately US\$151,000,000.
<b>Conditions precedent</b>	The Share Purchase Agreement is conditional upon:  (i) the approval of (a) the sale of all the issued share capital of KP Global, (b) the subscription of the KP Convertible Bonds by the Company, (c) the declaration of the Special Dividend, (d) the grant of the Waiver to Mr. Ding, Ms. Ding Mei Qing and their affiliates, and (e) the transactions contemplated under the Transition Services Agreement (if required under Chapter 14A of the Listing Rules) by the Independent Shareholders in accordance with the requirements of Chapter 14A of the Listing Rules and any other requirements imposed by the Stock Exchange;

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- (ii) there being (a) no law or order in existence and binding on any party that specifically prohibits or makes illegal the Disposal or the execution, delivery or performance of the Disposal, and (b) no pending proceedings by any governmental body that seek to prohibit or make illegal the Disposal or the execution, delivery or performance of the Disposal Transaction Documents; and
- (iii) the redemption of the K-Swiss Convertible Bonds having been completed pursuant to the terms of the K-Swiss Convertible Bonds Redemption Agreement.

If the conditions precedent have not been fulfilled on or before 31 December 2024 (or such later date as the parties agree in writing), the Share Purchase Agreement shall cease to have effect, and no party shall have any claim against the other party except for any antecedent breach of the Share Purchase Agreement. None of the above conditions can be waived by the parties. As at the Latest Practicable Date, none of the conditions above had yet been fulfilled.

### **Completion**

Completion shall take place after all of the conditions precedent set forth above have been satisfied on the later of (a) the third (3rd) business day after the condition precedent set forth in (i) has been satisfied; and (b) the thirtieth (30th) business day after the condition precedent set forth in (ii) has been satisfied, or at such other date as the relevant parties mutually agree in writing.

Immediately after completion of the Share Purchase Agreement, KP Global will cease to be a subsidiary of the Company.

### ***2.2 Proposed declaration of Special Dividend***

Subject to the completion of the Disposal and the Independent Shareholders' approval at the EGM, in appreciation of the Shareholders' long term support, the Board recommended the payment of a Special Dividend of HK\$0.447 per Share in cash to all those Shareholders who are Shareholders of record on the Special Dividend Record Date (i.e. 9 September 2024). Based on the 2,644,517,925 Shares in issue as at the Latest Practicable Date, it was expected that a Special Dividend in an aggregate amount of approximately HK\$1,182 million will be paid.

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The Special Dividend will be paid out of the proceeds from the Disposal. The declaration and distribution of the Special Dividend is subject to the fulfillment of the conditions as set out under the section headed “Conditions of the declaration of the Special Dividend” in the Letter from the Board and the Independent Shareholders’ approval at the EGM. It is noted that these conditions cannot be waived. If such conditions are not satisfied, the Special Dividend will not be paid.

As set out in the Letter from the Board, the proceeds from the Disposal will be used for the declaration and distribution of the Special Dividend. Having considered the reasons for and benefits of the Disposal as detailed below in this letter, the Special Dividend (i) will allow the Shareholders to immediately realise substantial value from their shareholdings in the Company while continuing to be invested in the Company’s remaining businesses as set out in the Letter from the Board; (ii) is a mean to appreciate long term support of the Shareholders to the Company; and (iii) provides the opportunity for a substantial and immediate cash realisation to the Shareholders from the outcome of the Disposal, we concur with the Management that the proposed distribution of the Special Dividend is, if materialised, in the interests of Company and the Shareholders as a whole.

### *2.3 Reasons for and benefits of the Disposal*

Based on our review of the 2023 Annual Report, information provided by the Management and as set out in the Letter from the Board, it is noted that the Group has recorded profit attributable to its ordinary equity holders for each of the five years ended 31 December 2019, 2020, 2021, 2022 and 2023. It is also noted that other brands of the Group, such as “Saucony” and “Merrell”, have already turned a profit, whereas the business of the brands “K-Swiss” and “Palladium” had recorded continuous loss since 2019 (i.e. since the Acquisition) and the aggregate operating losses of these brands has accumulated to over US\$100 million. The two brands incurred a loss of approximately US\$31.8 million for the year ended 31 December 2023. During the first three months of 2024, an unaudited loss of approximately US\$9 million has already been recorded for these two brands.

The aforesaid losses were mainly attributable to the fact that during the first few years after Acquisition, the retail market had faced challenges due to the COVID-19 pandemic coupled with escalating geopolitical tensions which caused disruptions to the economic and trade activities across the world. As the economy of China slowly recovered after the COVID-19 pandemic, consumer demands had dropped causing significant negative impact to the business of the two brands, namely “K-Swiss” and “Palladium”.

As stated in the Letter from the Board, it is expected that these two brands would continue to incur losses similar to the year ended 31 December 2023 for the year ending 31 December 2024. No significant improvement in the financial performance for the KP Global Group or these two brands during the year ending 31 December 2024 is expected and it was further noted that the KP Global Group has been recording net cash outflow from its operating activities since the Acquisition up to the Latest Practicable Date. In

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addition, uncertainties remain on the additional resources required, financial and otherwise, to drive the KP Global Group from the existing financial performance level to profitability. Furthermore, there are no certainty of whether and when the KP Global Group would become profitable, if at all. Given the prevailing competitive operating environment faced by the KP Global Group, hence, the business of the “K-Swiss” and “Palladium” brands, it is financially prudent from a strategical standpoint to proceed with the Disposal.

Upon the completion of the Disposal, the financial performance of the KP Global Group will cease to be consolidated into the Group’s financial statements, thus the Board is of the view that the Disposal provides an opportunity for the Group to eliminate the ongoing impact on its profitability and cash flows as a result of the losses incurred by the business of the brands “K-Swiss” and “Palladium”. In addition, the Disposal will allow the Group to concentrate its resources on developing its profitable brands — core Xtep brand, Saucony and Merrell.

With reference to the Letter from the Board, it is expected that the completion of the Disposal will lead to an improvement in profitability of the Group as the loss of KP Global Group will no long be consolidated into the Group’s financial results upon completion of the Disposal. The business structure will be streamlined, focusing on running: the core Xtep brand which targets the mass market; Saucony which caters to the high-end sophisticated customers; and Merrell which specializes in trail running and outdoor activities, and enhancing synergy among these brands.

With reference to the Letter from the Board, consideration of the Disposal was determined upon negotiation on arm’s length basis by reference to net book value of the KP Global Group as at 31 March 2024, being approximately US\$151,000,000, and appraised value of 100% equity interest of KP Global, being approximately US\$143,958,000 as detailed in the valuation report set out in Appendix I to the Circular. Having considered the valuation report, the Board concurs with the Independent Valuer (defined hereinafter) that (i) the adoption of the market approach in evaluating the 100% equity interest of KP Global is consistent with the market practice; (ii) the enterprise value-to-sales multiples and price-to-sales multiples are more appropriate and relevant for the purpose of the valuation; (iii) the selection of the comparable companies for the purpose of the valuation is fair and reasonable; and (iv) the adjustments made regarding control premiums and lack of marketability discount are in line with the market practice. Given the consideration of the Disposal is at a slight premium of approximately 4.9% over the appraised value set out in the Valuation Report (defined hereinafter), the Board is of the view that the consideration of the Disposal is fair and reasonable.

In addition, we also noted from the relevant annual reports of the Company that although, since the Acquisition, the athleisure segment of the Group (the “**Athleisure Segment**”), which mainly comprised of the “K-Swiss” and “Palladium” brands, has recorded positive gross margins of approximately 36.7%, 40.7%, 44.6%, 37.6% and 44.8% for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023, respectively, it recorded operating losses with the operating margin of approximately -10.0%, -10.4%, -9.0%, -13.5% and -11.5% during the same period.

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Having considered (i) the accumulated operating losses of “K-Swiss” and “Palladium” of over US\$100 million since the Acquisition in 2019 and the continued operating loss margin as well as the estimated continued loss for the year ending 31 December 2024; (ii) the uncertainties remain on whether and when KP Global Group would become profitable, if at all, the Management considered that it would be more prudent to reallocate time and resources to the other businesses and/or for the future development of the Group rather than persist on the continuous business development of the KP Global Group; and (iii) the Disposal provides an opportunity for the Group to divest these two loss-making brands and focus on the mass market products (the major sources income of the Group) and professional sports (already turned a profit), we concur with the Management that the Disposal falls under the strategy of the Group to focus on its core profitable business and is to the benefit and in the interests of the Company and the Shareholders as a whole.

### *2.4 Our analysis on the Disposal Consideration*

In considering the fairness and reasonableness of the Disposal Consideration, we have taken into account that the Disposal Consideration of US\$151,000,000, which was determined with reference to the net book value of KP Global Group as at 31 March 2024.

We noted that the Disposal Consideration represents a slight premium of approximately 4.9% over the appraised value of 100% equity interest of KP Global of approximately US\$144.0 million (the “**Appraised Value**”) as at 31 March 2024 (the “**Valuation Benchmark Date**”) based on the valuation report of KP Global (the “**Valuation Report**”) issued by Valplus Consulting Limited (the “**Independent Valuer**”).

#### *Appraised Value of KP Global*

With a view to assess the fairness and reasonableness of the Disposal Consideration, we have performed the following procedures, including but not limited to, (i) reviewed the Valuation Report prepared by the Independent Valuer in respect of the Appraised Value; and (ii) discussed with the Independent Valuer in relation to (a) their relevant professional qualifications and experience; (b) their scope of work in connection with the Valuation Report; and (c) their methodology and assumptions used in appraising the value of KP Global as set out in the Valuation Report.

#### *Background of the Independent Valuer*

We have reviewed the information and background of the Independent Valuer and noted its track record in the provision of valuation services to Hong Kong listed companies. We have also discussed the information as set out in the Valuation Report, including the basis and assumptions thereunder, with the engagement team of the Independent Valuer.

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In addition, we have enquired and the Independent Valuer has confirmed that they do not have any current or prior relationships with and are independent from the Group.

We also noted that as part of their work performed, the Independent Valuer has obtained and reviewed the relevant financial information and other relevant data in relation to KP Global necessary to perform their work, and the Independent Valuer has also confirmed that they have conducted the valuation in accordance with the applicable appraisal standards.

Furthermore, we have reviewed the terms of engagement between the Independent Valuer and the Company in relation to the Valuation Report, including the scope of work and responsibilities of the Independent Valuer, which was appropriate for the Independent Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the Valuation Report, and that we are not aware of any matters that would cause us to doubt the Independent Valuer's expertise and the sufficiency of the scope of work.

Based on the above, we are satisfied that the Independent Valuer is qualified to give their opinion as set out in the Valuation Report considering their relevant experience and expertise, their independence, their scope of work and valuation procedures performed.

### *Valuation methodologies*

As discussed with the Independent Valuer, we understand that the three generally accepted valuation approaches, namely, the income approach, asset approach and market approach, have been considered by the Independent Valuer regarding the valuation of KP Global.

It is noted from the Independent Valuer that (i) the income approach focuses on the economic benefits generated by the income producing capability of a business entity by estimating the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realising those benefits, or capitalising the economic benefits to be received in the next period at an appropriate capitalisation rate, which is considered not appropriate in the subject appraisal as it will involve a high level of uncertain, long-term forecast estimates and underlying assumptions in formulating the financial projection of KP Global; (ii) the asset approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets, assuming that each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals the value of its invested capital. This approach, reflecting the cost of reproducing and replacing the subject's assets, is considered inappropriate as such method ignores the future economic benefits of the business as a whole; (iii) the comparable transaction method under the market approach is not considered to be suitable in the subject appraisal as direct comparable transactions in the market is not sufficient to form a



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reliable opinion of value; and (iv) the guideline public company method under the market approach is considered as relevant and appropriate in the subject appraisal as certain public companies are engaged in the same or similar line of business to that of KP Global are available.

Having considered that (i) long-term financial projections and the adoption of numerous assumptions and subjective judgements are difficult to quantify or ascertain under the income approach; (ii) future economic benefits contributed by the subject assets are not directly incorporate under the asset approach; (iii) the number of direct comparable transactions is not sufficient for concluding a meaningful analysis for the comparable transaction method under the market approach; and (iv) a sufficient number of Comparable Companies (defined hereinafter) has been identified for the guideline public company method under the market approach, we concur with the view of the Independent Valuer that the adoption of guideline public company method under the market approach for the valuation of KP Global Group is appropriate and reasonable.

### *Valuation multiples*

With reference to the Valuation Report, we noted that enterprise value (i.e. equity value plus debt less any cash)-to-sales (“**EV/S**”) multiple and price-to-sales (“**P/S**”) has been adopted as the valuation multiple. As discussed with the Independent Valuer, we understand that other valuation multiples, namely the price-to-earnings (“**P/E**”) multiple, the enterprise value-to-earnings before interests, taxes, depreciation and amortisation (“**EV/EBITDA**”) multiple, the enterprise value-to-earnings before interests and taxes (“**EV/EBIT**”) multiple and the price-to-book (“**P/B**”) multiple have been considered.

However, the Independent Valuer advised that given (i) P/E multiples, EV/EBITDA multiples and EV/EBIT multiples may be distorted and/or not relevant as KP Global recorded net losses after taxation instead of net profit after taxation, negative EBITDA and EBIT, and did not generate operating profit since the Acquisition; (ii) its P/B multiple may be distorted by the significant value of goodwill and other intangible assets of KP Global of over US\$200.0 million as at 31 December 2023; and (iii) sales related multiples are common and appropriate for sellers of consumer discretionary products to make reference to for valuation purposes, it is therefore considered, and we concur with the view of the Independent Valuer that the EV/S multiples and P/S multiples to be more appropriate and relevant for the purpose of this Valuation.

### *Comparable companies*

We are given to understand from our discussion with the Independent Valuer that, in identifying the Comparable Companies (defined hereinafter) for the guideline public company method under the market approach, the nature of KP Global’s businesses were considered. It is noted that KP Global, through KP Global Brand Limited (previously known as “Xtep Global Limited”, a wholly-owned subsidiary of KP Global) is the business operator and the ultimate owner of global sportswear

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brands, namely “K-Swiss” and “Palladium” with over 50% of revenue generated from the design, development, marketing and sale of footwear and related products from different countries. Therefore, the Independent Valuer has conducted market research in this connection and selected public companies with a similar business nature based on the following criteria, namely, (i) the company is listed on the major stock markets; and (ii) over 50.0% of revenue generated from the design, development, marketing and sale of footwear and related products across different countries (together the “**Selection Criteria**”). The Selection Criteria are considered to be reasonable as business nature is the most determinant factor in selecting the most relevant and appropriate comparable companies, which reflects the risks and returns of similar business activities as exposed to both KP Global and the identified comparable companies. Based on the Selection Criteria, the Independent Valuer has identified 12 comparable companies (the “**Comparable Companies**”). Although the size, scale of operations and prospects of the Comparable Companies may not be the same as KP Global, the Comparable Companies are all engaged in similar business activities and industry, which share similar risks and returns faced by KP Global. Hence we consider it is a representative list of Comparable Companies for the purpose of the Independent Valuer’s analysis. For details, please refer to the Valuation Report as set out in Appendix I to the Circular.

We further understand from the Independent Valuer that larger companies generally have lower expected returns that translate into higher values, and smaller companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher, resulting in lower multiples, therefore the EV/S multiple and P/S multiple of the Comparable Companies were adjusted to reflect their differences in company sizes from KP Global Group by using an equation. Having considered the different size and scale of the Comparable Companies compared to KP Global (please refer to the Valuation Report as set out in Appendix I to the Circular for details), we have reviewed the calculations performed by the Independent Valuer based on the adjusted multiples formula for the size differentials between KP Global Group and the Comparable Companies, as set out in Addendum III to the Valuation Report, we noted that the aforesaid adjusted multiples formula was extracted from “Financial Valuation — Applications and Models, 2017”, a widely-adopted valuation textbook by James R. Hitchner. In this connection, we have reviewed the aforesaid extract from the valuation textbook regarding the adjusted multiples formula. We have also discussed the resultant size adjustments with the Independent Valuer, including the rationale and methodologies for arriving at the adjustment for the EV/S multiples and P/S multiples of the Comparable Companies which is based on the stated adjusted multiples formula, and are of the view that such adjustment is reasonable given (i) the notable difference in size between KP Global and the Comparable Companies, in particular the size of KP Global is relatively small as compared to those Comparable Companies, as such, a size adjustment should be imposed to address the size difference; and (ii) discussion with the Independent Valuer as to the rationale for using adopting such size adjustment, in order to provide a fair comparison of the relevant valuation multiples between the Comparable Companies and KP Global.

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As set out in the Valuation Report, the adjusted EV/S multiple of the Comparable Companies ranged from approximately 0.4 times to approximately 2.0 times with a median of approximately 1.1 times, and the adjusted P/S multiple of the Comparable Companies ranged from approximately 0.1 times to approximately 1.5 times with a median of approximately 0.7 times. The adjusted EV/S multiple and the adjusted P/S multiple of the Comparable Companies of approximately 1.1 times and 0.7 times were applied in arriving at the Appraised Value after taking into account the control premium and the lack of marketability discount, the analysis of which is set out below.

### *Control premium and lack of marketability discount*

We understand from the Independent Valuer that the adjusted EV/S multiple and the adjusted P/S multiple of each of the Comparable Companies will then subject to the following adjustments, namely (i) a control premium, which represents the amount a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. We understand that the control premium applied by the Independent Valuer in the Valuation Report was 18.7% and 30.3% for EV/S multiples and P/S multiples, respectively, based on the Mergerstat Control Premium Study published by FactSet Mergerstat, LLC<sup>1</sup>; and (ii) a lack of marketability discount (“**DLOM**”), which reflects the fact that there is no ready market for shares in a closely held company and are typically not readily marketable compared to similar interests in publicly listed companies, thus impacting its value. We understand that the DLOM applied by the Independent Valuer in the Valuation Report was 20.5% for KP Global Group, according to the Stout Restricted Stock Study Companion Guide<sup>2</sup>, a research study to assist the valuation profession in determining the DLOM. In this connection, we have obtained and reviewed the aforesaid publications and noted that the control premium and the DLOM adopted by the Independent Valuer are in line with the adjustment as stated in the subject publication.

### *Calculation of the Valuation*

With reference to the Valuation Report, the Appraised Value of KP Global is US\$144.0 million, being the average of approximately US\$118.5 million and US\$169.4 million based on the EV/S multiple valuation and the P/S multiple valuation, respectively.

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<sup>1</sup> As advised by the Independent Valuer, Mergerstat Control Premium Study is a widely accepted source among valuers for analysis of control premium. Mergerstat Control Premium Study is published by FactSet Mergerstat, LLC, an independent information provider for merger and acquisition transaction.

<sup>2</sup> As advised by the Independent Valuer, Stout Restricted Stock Study Companion Guide (2023 edition) is one of the largest fully-vetted DLOM database that provides the empirical support needed to determine a DLOM, and commonly used by valuers to determine DLOM. It is issued by Stout Risius Ross, LLC, which is a global advisory and consulting firm specialising in, among other things, valuation advisory and is an independent research study report which is designed to assist the valuation professional charged with determining DLOM.

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### *Our view*

Based on the above and having considered that (i) the Independent Valuer is qualified and experienced with sufficient knowledge and skills necessary to prepare the Valuation Report; (ii) the adoption of the market approach for the valuation is a common market practice; and (iii) the Independent Valuer confirmed that methodologies applied on assessing the Appraised Value is in accordance with the relevant valuation standards, we are of the view that the Valuation Report is an appropriate benchmark to assess the Disposal Consideration.

Given the Disposal Consideration is at a slight premium of approximately 4.9% over the Appraised Value, we considered that the Disposal Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

When assessing the fair and reasonableness of the Disposal Consideration, we consider the terms of the Call Option to be irrelevant given the Call Option was granted by Ding Shun Investment to the K-Swiss CB Investor, and we understand from the Management that the Company is not privy to the negotiations regarding the terms of the Call Option. Furthermore, the Company was given to understand that the exercise price of the Call Option was determined mainly with reference to, among others factors, the valuation of Xtep Global reflected by the consideration of US\$260,000,000 at which the brands of “K-Swiss”, “Palladium”, etc. were acquired by KP Global in 2019, which was also the same basis for the determination of the issue price of the K-Swiss Convertible Bonds issued in 2021.

Based on the foregoing, in particular, the Call Option was negotiated between Ding Shun Investment to the K-Swiss CB Investor, of which the Company is not a party to and was not privy to the negotiations regarding the terms of the Call Option, thus we do not consider the terms of the Call Option to be relevant to our assessment of the fairness and reasonableness of the Disposal Consideration. Furthermore, we have considered and covered the relevant information as well as analysis in assessing and arriving at our view on the fairness and reasonableness of the Disposal Consideration, including among others, (i) the reasons for the Disposal as analysed under the section headed “2.3 Reasons for and benefits of the Disposal” in this letter, in particular, the aggregate operating losses of the “K-Swiss” and “Palladium” brands under the KP Global Group has accumulated to over US\$100 million since the Acquisition in 2019 and that during the first three months of 2024, an unaudited loss of approximately US\$9 million has already been recorded for the aforesaid two brands; (ii) the Disposal provides an opportunity for the Group to eliminate the ongoing impact on profitability and cash flows as a result of the losses incurred by the business under the KP Global Group; (iii) our analysis and work

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performed in relation to the Appraised Value as set out in the Valuation Report and that the Disposal Consideration represents a slight premium of approximately 4.9% over the Appraised Value; (iv) our analysis as set out under the section headed “3. Issue of KP Convertible Bonds to the Company” in this letter; and (v) our analysis on the financial effects as set out under the section headed “4. Financial effects of the Proposed Transactions” in this letter.

### **3. Issue of KP Convertible Bonds to the Company**

On 9 May 2024, KP Global entered into the KP Subscription Agreement with the Company, pursuant to which the Company has conditionally agreed to subscribe for and KP Global has conditionally agreed to issue the KP Convertible Bonds at an aggregate principal amount of US\$154,000,000.

Upon full conversion of the KP Convertible Bonds at the initial KP CB Conversion Price, a total of 25,714 KP CB Conversion Shares will be issued, representing approximately 42.86% of the issued share capital of KP Global upon the issue of the KP Convertible Bonds and 30% of the issued share capital of KP Global as enlarged by the issue of the KP CB Conversion Shares.

The Company intends to offset the amounts owed by KP Global, which corresponds to (i) the accumulated losses since the Acquisition in 2019 combined with its value of the capital expenditure and working capital as at the end of March 2024; and (ii) the amount to be paid by the Company for the early redemption of the K-Swiss Convertible Bonds, with the subscription of the KP Convertible Bonds with the principal amount of US\$154,000,000. In the event that the Company does not convert the KP Convertible Bonds during the conversion period, the Company shall be entitled to collect the debt in the amount of US\$154,000,000 together with interest accrued.

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### *3.1 Principal terms of the KP Convertible Bonds*

Based on information as set out in the Letter from the Board, we have summarised the principal terms of the KP Convertible Bonds as below:

<b>Issuer</b>	KP Global
<b>Amount</b>	An aggregate principal amount of US\$154,000,000
<b>Term</b>	The eighth anniversary of the KP CB Issue Date.
<b>Interest</b>	The KP Convertible Bonds bear interest from and including the KP CB Issue Date at 3.5% per annum. Default interest rate is 25% per annum.

According to the terms of the KP Bond Instrument, the interest and the default interest shall be accrued quarterly and accumulate as additional principal amount of the KP Convertible Bonds. Provided in each case, that by delivering a written notice to the KP Global no later than five Business Days prior to the date of payment of interest, a holder of the KP Convertible Bonds may elect for such payment of interest with respect to the KP Convertible Bonds to be made in cash in lieu of payment in kind. During the conversion period, the KP Bondholder may elect to convert part of the principal amount of the KP Convertible Bonds, while the remaining portion (including interest and default interest accrued as additional principal) to be paid in cash upon redemption pursuant to the terms of the KP Convertible Bonds.

<b>Denomination</b>	The KP Convertible Bonds will be issued in registered form and in denominations of US\$1,000,000 each and integral multiples thereof.
<b>KP CB Conversion Price</b>	The initial KP CB Conversion Price is US\$5,988.95 per KP CB Conversion Share, subject to adjustment upon the occurrence of certain prescribed events, namely: (i) consolidation, subdivision or reclassification; (ii) capitalisation of profits or reserves; (iii) capital distributions; (iv) payment of dividends to shareholders; (v) rights issues of its shares or options over its shares; (vi) rights issues of other securities; (vii) issues of other additional shares or the grant of such options, warrants or other rights; (viii) issues that carry rights of conversion, exchange or subscription for its shares; (ix) modification of rights of conversion etc.; (x) other offers to its shareholders; or (xi) other events where the KP Global otherwise determines that an adjustment should be made to the KP CB Conversion Price.

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The initial KP CB Conversion Price of US\$5,988.95 per KP CB Conversion Share was determined after arm's length negotiations between KP Global and the Company with reference to the amount owed by KP Global to the Company as at the end of March 2024 after early redemption of the K-Swiss Convertible Bonds. The Directors considered that the initial KP CB Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**Conversion period** The KP Convertible Bonds shall be convertible at any time on or after the KP CB Issue Date up to the close of business on the KP CB Maturity Date or if the KP Convertible Bonds shall have been called or put for redemption at any time on or after the KP CB Issue Date, then up to the close of business on a date no later than two Business Days prior to the date fixed for redemption.

**Ranking** The KP Convertible Bonds constitute direct, unsubordinated, unconditional and secured obligations of KP Global and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of KP Global under the KP Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws and subject to the KP Bond Instrument, are secured by the Floating Charge over all the property, assets and rights of the KP Global Group created by KP Global in favour of the KP Bondholder.

The KP CB Conversion Shares will be fully-paid and in all respects rank *pari passu* with the issued and fully-paid shares of KP Global.

**Listing** No application will be made for the listing of the KP Convertible Bonds or the KP CB Conversion Shares on the Stock Exchange or any other stock exchange.

Completion shall take place on or no later than five Business Days following the fulfilment or waiver of the conditions precedent or on such other date as may be agreed in writing by the parties. For details on, among others, conditions precedent, transferability, redemption, events of default, major events, redemption trigger events and early redemption by KP Bondholder under the KP Subscription Agreement, please refer to the sections headed "Conditions precedent to the KP Subscription" and "Principal terms of the KP Convertible Bonds" set out in the Letter from the Board.

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### 3.2 Shareholding structure of KP Global

The following table sets out the shareholding structure of KP Global, assuming the Disposal has been completed, (i) immediately upon the issue of the KP Convertible Bonds; and (ii) immediately upon full conversion of the KP Convertible Bonds, assuming that there is no other change in the issued shares of KP Global from the Latest Practicable Date (for illustration purposes only).

Shareholders of KP Global	Immediately upon issue of the KP Convertible Bonds		Immediately upon full conversion of the KP Convertible Bonds (excluding any type of interests accrued)		Immediately upon full conversion of the KP Convertible Bonds (including interest of 3.5% per annum accrued)		Immediately upon full conversion of the KP Convertible Bonds (including default interest of 25% per annum accrued)	
	<i>Number of shares of</i>	<i>Approx. %</i>	<i>Number of shares of</i>	<i>Approx. %</i>	<i>Number of shares of</i>	<i>Approx. %</i>	<i>Number of shares of</i>	<i>Approx. %</i>
	<i>KP Global</i>		<i>KP Global</i>		<i>KP Global</i>		<i>KP Global</i>	
Ding Shun								
Investment	60,000	100.0	60,000	70.0	60,000	63.8	60,000	25.1
The Company	—	—	25,714	30.0	33,981	36.2	178,935	74.9
Total	<u>60,000</u>	<u>100.0</u>	<u>85,714</u>	<u>100.0</u>	<u>93,981</u>	<u>100.0</u>	<u>238,935</u>	<u>100.0</u>

### 3.3 Reasons for the subscription of the KP Convertible Bonds

As explained in this letter above, KP Global will cease to be a subsidiary of the Company after completion of the Disposal, after the redemption of K-Swiss Convertible Bonds, the amount to be owed by KP Global to the Company after the completion of K-Swiss CB Redemption and the Disposal will amount to US\$154 million, which includes (i) the accumulated losses since the Acquisition in 2019 combined with its value of the capital expenditure and working capital as at the end of March 2024; and (ii) the amount to be paid by the Company for the early redemption of the K-Swiss Convertible Bonds. Instead of KP Global repaying such outstanding amount to the Company, the Company intends to offset such outstanding amount from KP Global with the subscription of the KP Convertible Bonds. In the event that the Company does not convert the KP Convertible Bonds during the conversion period, the Company shall be entitled to collect the debt in the amount of US\$154,000,000 together with interest accrued.

Furthermore, it is also noted that the KP Convertible Bonds shall provide the Group with upside potentials through participating in the then financial performance and growth in value of KP Global during the tenure of the KP Convertible Bonds by exercising its conversion rights thereunder, if and when considered appropriate. Please refer to the section headed “3.4 Our analysis on the KP Convertible Bonds” in this letter for the relevant analysis.



### **3.4 Our analysis on the KP Convertible Bonds**

In considering the fairness and reasonableness of the KP Convertible Bonds, we have conducted the following work and analysis.

#### *Comparable analysis on convertible bonds*

The initial KP CB Conversion Price is US\$5,988.95 per KP CB Conversion Share and the KP Convertible Bonds will carry an interest of 3.5% per annum, accrued quarterly and the interest will be accumulated as additional principal amount of the KP Convertible Bonds. Default interest rate is 25% per annum. The KP Convertible Bonds will mature on the eighth anniversary of the KP CB Issue Date.

In assessing the fairness and reasonableness of the principal terms of the KP Convertible Bonds, including its interest rate (“**KP CB Interest Rate**”) and tenure (“**KP CB Tenure**”), we have based on the following criteria (the “**CB Selection Criteria**”) identified a list of convertible bonds/debt with convertible rights into the subject listed issuer’s shares to be issued and listed on the Stock Exchange, which were not associated with acquisition and/or restructuring of the subject listed issuer, the subject transaction announcement of which was announced by companies listed on the Main Board of Stock Exchange during the 12 months prior to the date of the Announcement, excluding those which has lapsed after the publication of the subject announcement and up to the Latest Practicable Date (the “**Comparable Convertible Bonds**”). Based on our research on the Stock Exchange’s website, we have identified an exhaustive list of 45 Comparable Convertible Bonds which satisfied the aforesaid criteria on a best effort basis.

Although the business, operations and prospects of KP Global are not the same as the listed issuers of the Comparable Convertible Bonds, we considered that (i) the review period of 12 months provides us with a reference on the market practice of convertible bond issuances with convertible rights into the subject listed issuer’s shares to be issued and listed on the Stock Exchange; (ii) the Comparable Convertible Bonds are identified based on the CB Selection Criteria; and (iii) as the Comparable Convertible Bonds were issued by Main Board listed issuers, which included both connected transactions and transactions with independent third parties, and thus provide a fair and representative reference for the purpose of our analysis on the key terms of the relevant convertible bonds issued at the material time.

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The following table sets out the details of the Comparable Convertible Bonds:

Date of announcement	Company name (stock code)	Interest rate per annum <i>Approximately</i> (%)	Tenure <i>Approximately</i> (year) <i>(Note 1)</i>	Relationship between respective subscriber(s) and the listed issuer	Status (up to the Latest Practicable Date)
30 April 2024	Prosperity Investment Holdings Limited (310)	8.0	2.0	independent third party	Completed
30 April 2024	Sinolink Worldwide Holdings Limited (1168)	Nil	3.0	connected person	Completed
26 April 2024	Elate Holdings Limited (76)	Nil	6.0	independent third party	Pending <i>(Note 7)</i>
24 April 2024	Green Leader Holdings Group Limited (61)	Nil	2.0	connected person	Completed
7 March 2024	Huayi Tencent Entertainment Company Limited (419)	10.0	2.0	independent third party	Completed
6 March 2024	Grand Field Group Holdings Limited (115)	6.0	3.0	connected person	Completed
1 March 2024	Grand Pharmaceutical Group Limited (512)	7.4	1.0	connected person	Pending <i>(Note 7)</i>
22 February 2024	Value Convergence Holdings Limited (821)	Nil	3.0	independent third party	Completed
30 January 2024	China Sandi Holdings Limited (910)	2.0	10.0 <i>(Note 5)</i>	connected person	Completed
26 January 2024	Changyou Alliance Group Limited (1039)	8.0	3.0	connected person	Completed
23 January 2024	Wisdom Wealth Resources Investment Holding Group Limited (7)	5.9	1.0	independent third party	Completed
16 November 2023	Prosperity Investment Holdings Ltd (310)	8.0	2.0	connected person	Completed
8 November 2023	China Kingstone Mining Holdings Limited (1380)	2.0	3.0	independent third party	Completed
5 November 2023	Global New Material International Holdings Limited (6616)	9.0	2.0	independent third party	Completed
28 September 2023	Asia Television Holdings Limited (707)	8.0	2.0	independent third party	Completed
13 September 2023	New Concepts Holdings Limited (2221)	5.0	2.0	independent third party	Completed
31 August 2023	USPACE Technology Group Ltd (1725)	0.5	1.0	independent third party	Completed

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Date of announcement	Company name (stock code)	Interest rate per annum <i>Approximately</i> (%)	Tenure <i>Approximately</i> (year) <i>(Note 1)</i>	Relationship between respective subscriber(s) and the listed issuer	Status (up to the Latest Practicable Date)
29 August 2023	Wai Chun Group Holdings Limited (“ <b>Wai Chun Group</b> ”) (1013) <i>(Note 2)</i>	1.0	5.0	connected person	Completed
29 August 2023	Wai Chun Group (1013) <i>(Note 2)</i>	1.0	4.8	connected person	Completed
29 August 2023	Kiu Hung International Holdings Limited (381)	4.0	5.0	independent third party	Completed
25 August 2023	Mobile Internet (China) Holdings Limited (1439)	2.0	2.0	independent third party	Completed
16 August 2023	Television Broadcasts Limited (511)	3.5	5.0	independent third party	Completed
28 July 2023	CCT Fortis Holdings Limited (138)	4.5	1.0	independent third party	Completed
27 July 2023	Innovative Pharmaceutical Biotech Limited (399)	Nil	10.0	connected person	Completed
25 July 2023	Carrianna Group Holdings Company Limited (126)	6.0	1.0	independent third party	Completed
18 July 2023	Renaissance Asia Silk Road Group Limited (274)	2.5	3.0	independent third party	Completed
11 July 2023	iDreamSky Technology Holdings Limited (1119)	5.0	5.0	independent third party	Completed
3 July 2023	Ta Yang Group Holdings Limited (1991)	10.0	3.0	independent third party	Completed
30 June 2023	China Success Finance Group Holdings Limited (“ <b>China Success Finance Group</b> ”) (3623) <i>(Note 3)</i>	6.5	5.5	independent third party	Completed
30 June 2023	China Success Finance Group (3623) <i>(Note 3)</i>	6.5	6.0	independent third party	Completed
30 June 2023	China Success Finance Group (3623) <i>(Note 3)</i>	6.5	6.5	independent third party	Completed
27 June 2023	Luye Pharma Group Ltd. (2186)	6.3	5.0	independent third party	Completed
26 June 2023	China Leon Inspection Holding Limited (1586)	2.0	5.0	independent third party	Completed
11 June 2023	VIVA Biotech Holdings (1873)	2.0	0.5	independent third party	Completed

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Date of announcement	Company name (stock code)	Interest rate per annum <i>Approximately</i> (%)	Tenure <i>Approximately</i> (year) <i>(Note 1)</i>	Relationship between respective subscriber(s) and the listed issuer	Status (up to the Latest Practicable Date)
9 June 2023	Hua Yin International Holdings Limited (989)	2.0	3.0	independent third party	Completed
9 June 2023	Unity Group Holdings International Limited (1539)	8.0	2.0	independent third party	Completed
6 June 2023	Hospital Corporation of China Limited (“Hospital Corporation”) (3869) <i>(Note 4)</i>	Nil	5.8	connected person	Completed
6 June 2023	Hospital Corporation (3869) <i>(Note 4)</i>	Nil	7.2	connected person	Completed
6 June 2023	China Asia Valley Group Limited (63)	3.6	5.0	connected person	Completed
2 June 2023	Global Bio-chem Technology Group Company Limited (809)	0.01	10.0 <i>(Note 6)</i>	connected person	Completed
31 May 2023	Hua Yin International Holdings Limited (989)	6.0	3.0	independent third party	Completed
29 May 2023	Hybrid Kinetic Group Limited (1188)	5.0	2.0	independent third party	Pending <i>(Note 7)</i>
22 May 2023	China Anchu Energy Storage Group Limited (2399)	8.0	2.0	independent third party	Completed
16 May 2023	Arta TechFin Corporation Limited (279)	8.0	2.0	independent third party	Completed
11 May 2023	LVGEM China Real Estate Investment Company Limited (95)	6.0	2.0	independent third party	Completed
	<b>Maximum</b>	10.0	10.0		
	<b>Minimum</b>	Nil	0.5		
	<b>Mean</b>	4.3	3.6		
	Comparable Convertible Bonds issued to connected person of the subject listed company				
	<b>Maximum</b>	8.0	10.0		
	<b>Minimum</b>	Nil	1.0		
	<b>Mean</b>	2.6	5.1		
	The KP Convertible Bonds	3.5	8.0	connected person	

*Source: The Stock Exchange’s website*

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### *Notes:*

1. Tenure is calculated as a period from date of issue of the convertible bonds to the date of maturity.
2. As set out in the announcement of Wai Chun Group dated 29 August 2023, there were two convertible bonds with principal amount of HK\$152,000,000 and HK\$23,480,000, respectively, issued by Wai Chun Group, therefore they were separately disclosed in the table above in order not to distort the analysis.
3. As set out in the announcement of China Success Finance Group dated 30 June 2023, there were three instalments repayment of the convertible bonds with principal amount of HK\$12,000,000, HK\$14,000,000 and HK\$14,000,000, each with its extended maturity date respectively, issued by China Success Finance Group, therefore they were separately disclosed in the table above in order not to distort the analysis.
4. As set out in the announcement of Hospital Corporation dated 6 June 2023, there were two convertible bonds with principal amount of HK\$468,000,000 and HK\$773,879,717, respectively, issued by Hospital Corporation, therefore they were separately disclosed in the table above in order not to distort the analysis.
5. The initial tenure of the subject convertible bond was five years, which was subsequently extended to 10 years.
6. The initial tenure of the subject convertible bond was five years, which was subsequently extended to approximately eight years and was subsequently further extended to approximately 10 years.
7. No published information on the website of the Stock Exchange has indicated that the issue of the subject convertible bond has been completed as at the Latest Practicable Date.

### *Analysis on the interest rate*

As illustrated by the table above, we note that the interest rates of the Comparable Convertible Bonds ranged from approximately nil to 10.0%, with a mean of approximately 4.3%. The KP CB Interest Rate of 3.5% per annum is within the range and lower than the mean of the Comparable Convertible Bonds of approximately 4.3%. In addition, it is also noted that the interest rates of the 14 Comparable Convertible Bonds issued to connected person of the subject listed company (the “**Connected Comparable Convertible Bonds**”) ranged from approximately nil to 8.0%, with a mean of approximately 2.6%. On this basis, the KP CB Interest Rate of 3.5% per annum is within the range and higher than the mean of the Connected Comparable Convertible Bonds of approximately 2.6%. On the basis that (i) the reasons for the subscription of the KP Convertible Bonds as set out under the section headed “3.3 Reasons for the subscription of the KP Convertible Bonds” in this letter above, in particular, it is for offsetting the outstanding amount due from KP Global, which was unsecured and interest free, and that the KP Convertible Bonds is secured by the Floating Charge over all the property, assets and rights of the KP Global Group created by KP Global in favour of the KP Bondholder, based on the unaudited consolidated financial information of KP Global Group as provided by the Management, the value of such assets was approximately US\$397.6 million as at 31 December 2023, and it bears an interest of 3.5% per annum; (ii) although the KP CB Interest Rate is below the mean interest

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rate of the Comparable Convertible Bonds, it is only 0.8% lower than the mean interest rate of the Comparable Bonds and the KP CB Interest Rate is within the range of interest rates of the Comparable Convertible Bonds and that the KP CB Interest Rate is above the mean interest rate of the Connected Comparable Convertible Bonds; (iii) the effective interest rate ranged from approximately 2.3% to 6.9% for the year ended 31 December 2023, these interest rates in relation to loans provided by external financial institutions to the Group were determined with reference to, among others, Secured Overnight Financing Rate plus 1.2%, Hong Kong Inter-bank Offered Rate (“HIBOR”) plus 1.1% to 1.45% and one year Loan Prime Rate (貸款市場報價利率) as announced by the Central Bank of the People’s Republic of China from time to time less 0.45% to 1.15%, of which the KP CB Interest Rate of 3.5% per annum is within range of; and (iv) we also noted that the U.S. Federal Reserve of the United States has indicated that under the appropriate environment it may consider lowering its benchmark interest rate in the foreseeable future, and the base interest rate set by the Hong Kong Monetary Authority is also expected to move in a similar direction barring unforeseen circumstances, thus HIBOR may also decrease over time, in addition the 1-year and 5-year Loan Prime Rate has reduced by 30 basis points and 45 basis points since 1 January 2023 up to the Latest Practicable Date and further reduction may materialise in the future, on this basis, given the market costs of financing should be lowered in the long run and that the tenure of the KP Convertible Bond is eight years, we are of the view that notwithstanding that the KP CB Interest Rate is 0.8% slightly lower than the mean interest rate of the Comparable Convertible Bonds, the KP CB Interest Rate is higher than the mean interest rate of the Connected Comparable Convertible Bonds, therefore having considered all of the abovementioned factors, we consider the KP CB Interest Rate to be fair and reasonable.

### *Analysis on the tenure*

Based on our market research, the tenure of the Comparable Convertible Bonds ranged from 0.5 year to 10 years. It is also noted that out of three Comparable Convertible Bonds with a tenure of over eight years, tenure of two of them had been extended. The KP CB Tenure of eight years therefore falls within the range of the tenure of the Comparable Convertible Bonds. Taking into consideration the reasons for the subscription of the KP Convertible Bonds, in particular, (i) given that KP Global has been loss making since the completion of the Acquisition and the notable accumulated losses recorded by KP Global during the aforesaid period up to the Latest Practicable Date, the turnaround of KP Global’s business to profitability in a short period of time may be unlikely, therefore the KP CB Tenure of eight years will provide KP Global a reasonable period of time to improve its business and operations as implementation of any significant strategies and the corresponding results, if any, would take time, and might reduce the likelihood of the need to further extend the tenure of KP Convertible Bonds should the tenure be shorter and that such shorter tenure does not provide KP Global with sufficient time to turnaround, and that any extension may involve a prolonged negotiation process and unduly burdensome and lengthy administrative and/or approval procedures of the Company to further extend the tenure, just like the extension of tenure of two out of

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the three Comparable Convertible Bonds with a tenure of over eight years; (ii) upon full conversion of the KP Convertible Bonds at the KP CB Conversion Price, the Company shall own 30% of the issued share capital of KP Global as enlarged by the issue of the KP CB Conversion Shares, the tenure enables the Company to have a decent duration of time to monitor and consider the progress of KP Global's development and track record as well as assess whether to exercise its conversion right under the KP Convertible Bonds in the event that the Company considers such to be in the interests of the Company and its then Shareholders as a whole at the relevant time; (iii) the Internal Control Procedures (defined hereafter) in relation to whether to exercise the conversion right under the KP Convertible Bonds and the timing thereof as further analysed in the subsequent section; (iv) the KP Convertible Bonds will generate interest income for the Group at the interest rate of 3.5% per annum, our detailed analysis of which is set out under the preceding paragraph headed "Analysis on the interest rate"; and (v) the KP CB Tenure is within the range of the tenure of the Comparable Convertible Bonds, we consider the tenure of the KP Convertible Bonds to be fair and reasonable.

### *KP CB Conversion Price and potential upside for the Company*

With reference to the Letter from the Board, based on the aggregate principal amount of US\$154,000,000 and 25,714 KP CB Conversion Shares to be issued upon full conversion of the KP Convertible Bonds (excluding any type of interests accrued) (which represents 30% of the enlarged issued share capital of KP Global), the initial KP CB Conversion Price is US\$5,988.95 per KP CB Conversion Share (subject to adjustments as set out in the Letter from the Board) was determined after arm's length negotiations between the Ding Family (who will own KP Global after the completion of the Disposal) and the Company with reference to the amount owed by KP Global to the Company as at the end of March 2024 and after early redemption of the K-Swiss Convertible Bonds. We noted that the calculation of KP CB Conversion Price of US\$5,988.95 per KP CB Conversion Share is based on the aggregate principal amount of US\$154,000,000 of the KP Convertible Bonds divided by 25,714 KP CB Conversion Shares, without taking into account the adjustment as set out in the Letter from the Board. As part of our work, we have re-performed the aforesaid calculation which has been set out in the Letter from the Board and considered the following information.

Based on the Disposal Consideration of US\$151.0 million and the number of shares of KP Global of 60,000, the implied value per share of KP Global is approximately US\$2,517 (the "**Existing Implied KP Share Value**"). Although the Company is not a privy party to the negotiation of the Call Option, which was arrived at after arm's length negotiations between Ding Shun Investment and the K-Swiss CB Investor, being an independent third party, it is noted that the conversion price under the Call Option, exercisable within five years, is approximately US\$5,417 per conversion share under the Call Option (being US\$65.0 million divided by 12,000 shares of KP Global under the Call Option, representing 20% of the entire issued share capital of KP Global assuming that there are no changes to the number of shares of KP Global) (the "**Implied KP Share Value**").

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

**under the Call Option**”). On this basis, it is noted that the Implied KP Share Value under the Call Option, which is exercisable within five years, is approximately US\$5,417, and compared with the Existing Implied KP Share Value of approximately US\$2,517, for illustration purposes only, the arithmetic calculation shows a yearly rate of increase of approximately US\$580, assuming that the Call Option is exercised at the end of the fifth year. Based on such yearly rate of increase of US\$580 and taking into account that the KP Convertible Bonds has a tenure of eight years, being three years longer than the Call Option’s five-year exercise period, the calculated price is US\$7,157 after taking into account the extra three years. Given the initial KP CB Conversion Price of US\$5,988.95 per KP CB Conversion Share, subject to adjustments, is lower than the calculated price of US\$7,157, we consider the initial KP CB Conversion Price to be reasonable.

The KP Convertible Bonds shall be convertible at any time on or after the KP CB Issue Date up to the close of business on the KP CB Maturity Date or if the KP Convertible Bonds shall have been called or put for redemption at any time on or after the KP CB Issue Date, then up to the close of business on a date no later than two Business Days prior to the date fixed for redemption. In this connection, we have discussed with the Management and noted that as the KP Bondholder, the Company shall monitor the financial position and performance of KP Global from time to time after the completion of the Disposal. Furthermore, the Company shall perform quantitative and qualitative analysis to evaluate the then financial position and performance of KP Global as well as its business operations and prospects (the “**Evaluation**”) and determine whether it is in the interests of the Company and its then Shareholders to exercise its conversion right at the KP CB Conversion Price. The Evaluation, including the relevant information and analysis thereof together with the results, will be prepared by the Management, and be submitted to the Board for their consideration. In the event that, after considering the relevant analysis and results of the Evaluation, the Board (with the interested member(s) of the Board to be abstained) decides that it is in the interests of the Company and its then Shareholders to exercise its conversion right at the KP CB Conversion Price, only then would the Company exercise its conversion rights thereof (the “**Internal Control Procedures**”). In this connection, we are of the view that the Internal Control Procedures, if implemented, will effectively scrutinise the timing to exercise the conversion right taking into account the KP CB Conversion Price, if at all, and can safeguard the interests of the Company and the then Shareholders as a whole.

Furthermore, it is also noted that the KP Convertible Bonds shall provide the Group with upside potentials, in particular, during the tenure of the KP Convertible Bonds, should the Company decide to exercise its conversion rights thereunder after due care and consideration, having taken into account factors, such as the then valuation of 30% equity interest of KP Global and the merits and benefits of such conversion will outweigh the benefits to receive the aggregate outstanding amount of the principal and interest at the material time, the Company shall be able to participate in the then financial performance and growth in value of KP Global but without the financial and non-financial commitments, time and efforts and/or assume the associated risks of the KP Global Group’s businesses and operations from the



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completion date of the Disposal up to the date of exercise of its conversion rights attached to the KP Convertible Bonds. Upon the exercise of such conversion rights, the Company will become a shareholder of KP Global.

### *Our view*

As stated in the Letter from the Board, the Company intends to offset the amounts owned by KP Global, which corresponds to (i) the accumulated losses since the Acquisition in 2019 combined with its value of the capital expenditure and working capital as of the end of March 2024; and (ii) the amount to be paid by the Company for the early redemption of the K-Swiss Convertible Bonds, with the subscription of the KP Convertible Bonds. The payment obligations of KP Global under the KP Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws and subject to the KP Bond Instrument, are secured by the Floating Charge over all the property, assets and rights of the KP Global Group created by KP Global in favour of the KP Bondholder. In the event that the Company does not convert the KP Convertible Bonds during the conversion period, the Company shall be entitled to collect the debt in the amount of US\$154,000,000 together with interest accrued.

Upon full conversion of the KP Convertible Bonds at the initial KP CB Conversion Price, a total of 25,714 KP CB Conversion Shares will be issued, representing approximately 42.86% of the issued share capital of KP Global upon the issue of the KP Convertible Bonds and 30% of the issued share capital of KP Global as enlarged by the issue of the KP CB Conversion Shares. It is also noted that the initial KP CB Conversion Price is subject to adjustment upon the occurrence of certain prescribed events, such as, anti-dilution adjustments. Details of which are set out under the section headed “Principal Terms of the KP Convertible Bonds” in the Letter from the Board.

Having considered that (i) the KP Convertible Bonds is secured by the Floating Charge on the assets of the KP Global Group and the terms of which, including, the tenure and interest rate, are within the range of the Comparable Convertible Bonds; (ii) the subscription of the KP Convertible Bonds is to facilitate the offset the amounts due from KP Global to the Company as of the end of March 2024, which is interest free and unsecured in nature; (iii) the potential upside to the Company in the event that the then valuation of equity interest of KP Global and the merits and benefits of the conversion of the KP Convertible Bonds outweigh the benefits to receive the aggregate outstanding amount of the principal and interest at the material time during the tenure of the KP Convertible Bonds; and (iv) in the event that the Company does not convert the KP Convertible Bonds during the conversion period, the Company shall be entitled to collect the principal amount of US\$154,000,000 together with interest accrued, we are of the view that the terms of the subscription of the KP Convertible Bonds is fair and reasonable.

#### **4. Financial effects of the Proposed Transactions**

The possible financial effects of the Group attributable to the Proposed Transactions, in particular, (i) the Disposal and the Special Dividend; (ii) subscription of KP Convertible Bonds by the Company pursuant to the KP Subscription Agreement; and (iii) the swap of the K-Swiss Convertible Bonds with the Xtep Convertible Bonds, as set out below are for illustrative purposes only and subject to audit, thus may or may not reflect the future financial position and/or performance of the Group after the completion of relevant Proposed Transactions.

##### *The Disposal and the Special Dividend*

Immediately upon the completion of the Disposal, KP Global will cease to be a subsidiary of the Group. As such, the financial statements of the KP Global Group will cease to be consolidated into the consolidated financial statements of the Group. Having taken into account that the consideration of the Disposal of US\$151,000,000 is based on the net book value of the KP Global Group as at 31 March 2024, save for an expected gain on the Disposal associated with the losses of KP Global Group to be recorded subsequent to 31 March 2024 and up to the date of completion of the Disposal, and the professional fees, and barring unforeseen circumstances, it is expected that the Group will not derive any other material gains or losses or have a material impact on the net asset of the Group as a whole attributable to the Disposal.

Subject to the completion of the Disposal, the Board intends to declare the Special Dividend of approximately HK\$1,182 million (equivalent to approximately US\$151,000,000). Taking into account the consideration of the Disposal of US\$151,000,000 and the Special Dividend of approximately HK\$1,182 million (equivalent to approximately US\$151,000,000), the net cash effect to the Group attributable to the above corporate transaction/action (before professional fees) should not be material.

##### *Subscription of KP Convertible Bonds by the Company*

The Company intends to offset the amounts owned by KP Global, which corresponds to (i) the accumulated losses since the Acquisition in 2019 combined with its value of the capital expenditure and working capital as at the end of March 2024; and (ii) the amount to be paid by the Company for the early redemption of the K-Swiss Convertible Bonds (the “**Offset Amount**”), with the subscription of the KP Convertible Bonds. In the event that the Company does not convert the KP Convertible Bonds during the conversion period, the Company shall be entitled to collect the principal amount of US\$154,000,000 together with interest accrued.

On the basis that the Offset Amount is the same as the principal amount of the KP Convertible Bonds, the net cash effect to the Group attributable to the abovementioned transactions (before professional fees) should not be material.

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### *Swap of the K-Swiss Convertible Bonds with the Xtep Convertible Bonds*

The Company proposed to swap the K-Swiss Convertible Bonds with the Xtep Convertible Bonds. The K-Swiss Convertible Bonds will be redeemed in full by KP Global at the principal amount of US\$65,000,000 (equivalent to approximately HK\$507,000,000<sup>3</sup>) from the K-Swiss CB Investor, of which Hillhouse is the investment manager of the Investor and the K-Swiss CB Investor, pursuant to the K-Swiss Convertible Bonds Redemption Agreement, on the other hand, the Group proposed to issue Xtep Convertible Bonds in the principal amount of HK\$500,000,000 to the Investor. On this basis, the net cash impact of the Group would be (i) the net cash raised from the issue of the Xtep Convertible Bonds; less (ii) the amount of US\$65,000,000, being the principal amount of the K-Swiss Convertible Bonds. Save as disclosed above, the Company does not expect other material effects on the net cash flow of the Group immediately upon the swap of the K-Swiss Convertible Bonds with the Xtep Convertible Bonds.

It is also noted that while the K-Swiss Convertible Bonds is non-interest bearing, the Xtep Convertible Bonds bear quarterly accrued interest from and including the Xtep CB Issue Date at 3.5% per annum, and the holder of the Xtep Convertible Bonds may elect for such interest payment to be made in cash in lieu of payment in kind.

### *Impact to the consolidated net asset value of the Group*

Immediately upon the completion of the Proposed Transactions, save as disclosed above, in particular, the effect of the Special Dividend which is expected to reduce the equity balance of the Group of approximately US\$151 million which shall be funded by the proceeds from the Disposal, the Company does not expect other material effect on the Group's net asset value attributable to the overall effects of (i) the Disposal and the Special Dividend; (ii) the subscription of KP Convertible Bonds by the Company pursuant to the KP Subscription Agreement; and (iii) the swap of the K-Swiss Convertible Bonds with the Xtep Convertible Bonds. Nonetheless, the actual financial effects on the consolidated financial position of the Group attributable to the aforesaid transactions is subject to audit.

## **5. Waiver in respect of the Deed of the Non-compete**

With reference to the Letter from the Board, on 7 May 2008, each of the then controlling shareholders of the Company, as covenantors, entered into the Deed of Non-compete in favour of the Company, pursuant to which each of the controlling shareholders of the Company concerned has undertaken to the Company (for itself and for the benefit of its subsidiaries) that it or he or she would not, and would procure that its or his or her associates (except any members of the Group) would not, during the restricted period set out below, directly or indirectly, either on its or his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or

<sup>3</sup> Calculated based on the exchange rate of US\$1:HK\$7.8, such exchange rate is for illustration purposes only and does not purport that US\$ can be converted into HK\$ at such rate or any other rates.

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otherwise) any business which is or may be in competition with the business of any member of the Group from time to time. In addition, as set out in the Letter from the Board, the Company has adopted measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders. Please refer to the section headed “(4) Waiver in respect of Deed of Non-compete” in the Letter from the Board for the details of the non-compete undertaking and measures in relation to managing the conflict of interests arising from the competing business.

### *5.1 Background of the Waiver*

Since the KP Global Group is the business operator and the ultimate owner of the “K-Swiss” and “Palladium” brands, and given the Group is currently engaged in the design, development, manufacturing, sales, marketing and brand management of various sports brands, upon completion of the Disposal, the business of KP Global Group may be in competition with the business of the Group.

As Mr. Ding and Ms. Ding Mei Qing, being the then controlling Shareholders who executed the Deed of Non-compete, own 67% and 21% of Ding Shun Investment respectively, and Ding Shun Investment will become the sole shareholder of KP Global upon completion of the Disposal, Mr. Ding and Ms. Ding Mei Qing have requested from the Company for the Waiver from strict compliance by the covenantors under the Deed of Non-compete in respect of the non-competition restrictions that apply to the business of the “K-Swiss” and “Palladium” brands being carried out by KP Global.

### *5.2 Reasons for the proposed grant of the Waiver*

With reference to the Letter from the Board, the Company is a multi-brand sportswear company, which is principally engaged in the design, development, manufacturing, sales, marketing and brand management of sports products covering footwear, apparel and accessories for adults and children.

The Group has a diverse brand portfolio encompassing the core Xtep brand, K-Swiss, Palladium, Saucony and Merrell. The mass market segment, mainly represented by the Xtep brand, aims to offer value-for-money professional sports footwear, apparels and accessories, with a focus on running. Its major target market is the PRC. The vision of the Xtep brand is to become the preferred brand among mass market runners, expanding its target audience beyond elite athletes. The athleisure segment is represented by the K-Swiss and Palladium brands. The athleisure segment mainly targets customers looking for a blend of athletic and leisure wear, designed to be suitable for both exercising and everyday wear. Among the athleisure brands, K-Swiss offers footwear, apparel, and accessories for athletic, sports, and fitness activities, as well as casual wear, whereas Palladium is a well-known boot brand, famous for its signature military boots and canvas shoes. The professional sports segment comprises two brands: Saucony and Merrell. Saucony is a performance running and lifestyle brand, offering running shoes, apparel and accessories in the higher-end market and catering to a more sophisticated customer base. Merrell offers a wide range of outdoor footwear and apparel, catering to hikers, runners, and those with an active lifestyle. The major market of the Saucony and Merrell brands is Greater China.

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Although there are differentiations among the Group's mass market, athleisure and professional sports segments as stated above, all of them are within the sportswear market. Also, sports footwear is the major products of all these brands. Accordingly, there is inevitably a certain degree of overlapping in the market, products and target customers between the brands owned by KP Global (i.e. K-Swiss and Palladium) and those remained owned by the Company (i.e. Xtep, Saucony and Merrel) after the completion of the Disposal, and the business of the KP Global Group may be in competition with the business of the Group.

The Waiver would facilitate the completion of the Disposal, as the absence of the Waiver would prevent Mr. Ding and Ms. Ding Mei Qing (being two of the covenantors under the Deed of Non-compete), and Mr. Ding Ming Zhong and Ding Shun Investment (each being an associate of Mr. Ding and Ms. Ding Mei Qing) from proceeding with the Disposal, as they are not permitted to own or operate the businesses under the KP Global Group due to the existing Deed of Non-compete.

Although the business of the "K-Swiss" and "Palladium" brands have been struggling over the years, it is undeniable that these two brands have their own unique market position and customer base in China. It is expected that the business of the "K-Swiss" and "Palladium" brands could slowly recover and become successful in the future. Pursuant to the KP Subscription Agreement, the Company has conditionally agreed to subscribe for and KP Global has conditionally agreed to issue the KP Convertible Bonds, which grants the Company the conversion rights in relation to the KP CB Conversion Shares, thus allowing the Company the opportunity to participate in the upside of KP Global in the future in the event that the businesses of KP Global turnaround, subject to the then decision of the Company. The Company will have the opportunity to share the success of the "K-Swiss" and "Palladium" brands in the future and to eliminate the ongoing impact on its profitability and cash flows as a result of the losses incurred by the business under the KP Global Group.

In order to allow KP Global to continue the business of the "K-Swiss" and "Palladium" brands under the ownership of the Ding Family, the Waiver will need to be granted.

Further, the Company will be entering into a Transition Services Agreement with KP Global, pursuant to which, the Group will provide certain transition services to KP Global at a service fee. This service arrangement will provide the Group with other form of stable income.

***5.3 Our view on the proposed grant of the Waiver***

Having considered factors including, among others, (i) the reasons for the Disposal as analysed under the section headed “2.3 Reasons for and benefits of the Disposal” in this letter, in particular, the aggregate operating losses of the “K-Swiss” and “Palladium” brands under the KP Global Group has accumulated to over US\$100 million since the Acquisition in 2019, a loss of approximately US\$31.8 million incurred by the two brands for the year ended 31 December 2023, and that during the first three months of 2024, an unaudited loss of approximately US\$9 million has already been recorded for the aforesaid two brands, thus the Disposal provides an opportunity for the Group to eliminate the ongoing impact on its profitability and cash flows as a result of the losses incurred by the business under the KP Global Group; (ii) the Waiver facilitates the completion of the Disposal, as the absence of the Waiver would prevent subject controlling shareholders from proceeding with the Disposal as they are not permit to operate the businesses under the KP Global Group given the existing Deed of Non-compete; (iii) pursuant to the KP Subscription Agreement, the Company has conditionally agreed to subscribe for and KP Global has conditionally agreed to issue the KP Convertible Bonds, which grants the Company the conversion rights, if exercised in full, to 30% of the issued share capital of KP Global as enlarged by the issue of the KP CB Conversion Shares, as further detailed under the section headed “3. Issue of KP Convertible Bonds to the Company” in this letter above, thus allowing the Company the opportunity to participate in the upside of KP Global in the future in the event that the businesses of KP Global turnaround and subject to the then decision of the Company; and (iv) the effective application of the measures adopted by the Company as set out under the section headed “Reasons for the proposed grant of the Waiver” in the Letter from the Board, in particular, the controlling shareholders shall provide information as requested by the Company for the annual review by independent non-executive Directors in relation to the enforcement of the Deed of Non-compete, the annual declaration on compliance of the Deed of Non-compete by the controlling shareholders, a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with the Company’s interest and absent himself/herself from the Board meetings on matters in which such Director or any of his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors, and pursuant to the Corporate Governance Code set out in Appendix C1 to the Listing Rules, the Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at the Company’s cost, to ensure that the compliance of the Deed of Non-compete by the Controlling Shareholders are monitored and adhered to, such shall provide a safeguard to protect the interests of the Shareholders, we are of the view that the proposed grant of the Waiver to be fair and reasonable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### RECOMMENDATION

Having considered the factors as set out in this letter above, in particular,

- (i) the background of the Proposed Transactions;
- (ii) the background and the financial information of the KP Global Group, the aggregate operating losses of which has accumulated to over US\$100 million since the Acquisition in 2019;
- (iii) the reasons for and benefits of the Proposed Transactions, namely (a) the Share Purchase Agreement and the Special Dividend, as analysed under the section headed “2. The Share Purchase Agreement and the Special Dividend” in this letter; (b) the issue of KP Convertible Bonds to the Company, as analysed under the section headed “3. Issue of KP Convertible Bonds to the Company” in this letter; and (c) the Waiver in respect of the Deed of Non-compete; and
- (iv) the information as set out under the section headed “4. Financial effects of the Proposed Transactions” in this letter,

we are of the view that although the transactions contemplated under the Proposed Transactions are not in the ordinary and usual course of business of the Group, the Proposed Transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms of the Proposed Transactions are fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the relevant ordinary resolutions to approve the Proposed transactions at the EGM.

Yours faithfully,

For and on behalf of

**Red Sun Capital Limited**

**Jimmy Chung**

**Lewis Lai**

*Managing Director*

*Managing Director*

*Mr. Jimmy Chung and Mr. Lewis Lai are licensed persons registered with the Securities and Futures Commission of Hong Kong and responsible officers of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Jimmy Chung and Mr. Lewis Lai have over 25 and 17 years of experience in corporate finance industry, respectively.*

*The following is the text of a valuation report, prepared for the purpose of incorporation in this circular, received from Valplus Consulting Limited, an independent valuer, in connection with this valuation as at 31 March 2024 of the fair value of the 100% equity interest in KP Global.*



**Valplus Consulting Limited**  
Unit 907, 9/F, Houston Centre  
63 Mody Road  
Tsim Sha Tsui East  
Hong Kong

2 August 2024

The Board of Directors  
**Xtep International Holdings Limited**  
Unit A, 27/F  
Tower A, Billion Centre  
1 Wang Kwong Road  
Kowloon Bay, Kowloon  
Hong Kong

Dear Sirs/Madams,

Re: Valuation of 100% equity interests in KP Global Investment Limited

In accordance with the instructions from Xtep International Holdings Limited (“**Company**” and together with its subsidiaries, “**Group**”), we have conducted a valuation of fair value of 100% equity interests (“**Equity Interests**”) in KP Global Investment Limited (“**KP Global**” and together with its subsidiaries, “**KP Global Group**”), a wholly-owned subsidiary of the Company which is principally engaged in the design, development and marketing of sport and fashion footwear and related products under the brand names of “K-Swiss” (“**K-Swiss**”) and “Palladium” (“**Palladium**”). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the fair value of KP Global as at 31 March 2024 (“**Valuation Date**”).

This report states the purpose of valuation and premise of value, sources of information, identifies the business valued, describes the methodology of our valuation, investigation and analysis, assumptions and limiting conditions, and presents our opinion on value.



## 1. PURPOSE OF VALUATION

This report is being solely prepared for the directors and management of the Company for internal reference in connection with a proposed disposal (“**Proposed Disposal**”) by the Company over the entire issued share capital of KP Global.

The Proposed Disposal, if approved and materialized, would be a commercial decision made by the transacting parties and the corresponding transaction price would be the result of negotiations between the transacting parties. The directors and management of the Company should be solely responsible for determining the consideration of the Proposed Disposal, in which Valplus Consulting Limited (“**Valplus**”) is not involved in the negotiation and has no comment on the agreed consideration.

Furthermore, this valuation report does not constitute an opinion on the commercial merits and structure of the Proposed Disposal. We are not responsible for any unauthorized use of this report. Valplus assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

## 2. BASIS AND PREMISE OF VALUE

Our valuation has been prepared in accordance with the International Valuation Standards (“**IVS**”) published by the International Valuation Standards Council.

Our valuation is based on going concern premise and conducted on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## 3. SOURCES OF INFORMATION

We relied on the following major documents and information in our valuation analysis. Some of the information and materials are furnished by the management of KP Global Group, the Group and their representatives (together, “**Management**”). Other information is extracted from public sources such as government sources, HKEXnews, Bloomberg and Kroll, LLC, etc.

The major documents and information include the following:

- Business license(s) or certificate(s) of incorporation of KP Global Group;
- Official websites of K-Swiss and Palladium;
- Announcement(s) and/or circular(s) made by the Company in relation to KP Global;
- Audited annual reports and unaudited interim reports of the Group; and
- Historical financial information of KP Global Group including income statements and balance sheets as prepared and provided by the Management.

In the course of our valuation, we had discussion with the Management on the industry and the development of KP Global Group. Furthermore, we have made reference to or reviewed the above information and data and assumed such information and data are true and accurate without independent verification except as expressly described herein. We consider that we have obtained adequate information from the sources described above to provide a reliable opinion on value.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all the matters which an audit or more extensive examination might disclose.

#### 4. COMPANY PROFILE

KP Global is an investment holding company incorporated in the British Virgin Islands with limited liability on 27 August 2012. KP Global acts as an investment holding company and owns the entire issued share capital of KP Global Brand Limited (“**KP Global Brand**”), acting as the intermediate holding company to control (i) 96.0% equity interests of KP Global Trading Limited (“**KP Global Trading**” or “**Operating Subsidiary I**”); (ii) 100% equity interests of KP Retail Trading Limited (“**KP Retail Trading**” or “**Operating Subsidiary II**”); (iii) 100% equity interests of K-Swiss Holdings, Inc. (“**K-Swiss Holding**” and together with its subsidiaries, “**Operating Subsidiary Group III**”); (iv) 100% equity interests of 蓋世威(廈門)體育用品有限公司 (officially translated as “K-Swiss (Xiamen) Sports Company Limited” and hereinafter, “**K-Swiss Xiamen**” and together with its subsidiaries, “**Operating Subsidiary Group IV**”); and (v) 100% equity interests of 帕拉丁(廈門)運動用品有限公司 (officially translated as “Palladium (Xiamen) Sports Company Limited” and hereinafter, “**Palladium Xiamen**” and together with its subsidiaries, “**Operating Subsidiary Group V**”, and together with the Operating Subsidiary I, the Operating Subsidiary II, the Operating Subsidiary Group III and the Operating Subsidiary Group IV, “**Operating Subsidiaries**”).

KP Global Brand is a private company incorporated in Hong Kong with limited liability on 13 September 2012. Pursuant to the Management, except for holding the equity interests in the Operating Subsidiaries, KP Global Brand has nominal business operations.

KP Global Trading is a private company incorporated in Macau with limited liability on 10 July 2023. KP Global Trading is principally engaged in the retail business of footwear and related products under the brands of K-Swiss and Palladium in Macau.

KP Retail Trading is a private company incorporated in Hong Kong with limited liability on 12 May 2009. KP Retail Trading is principally engaged in the retail business of footwear and related products under the brands of K-Swiss and Palladium in Hong Kong.

K-Swiss Holding is a corporation organized under the laws of the State of Delaware on 21 March 2013. K-Swiss Holding is principally engaged in the design, development and marketing of footwear and related products under the brands of K-Swiss and Palladium, with the distribution network across global markets.

K-Swiss Xiamen is a private company incorporated in the People’s Republic of China (“**PRC**” or “**China**”) with limited liability on 16 October 2019. K-Swiss Xiamen is principally engaged in the design, development and marketing of footwear and related products under the brand of K-Swiss in the PRC.

Palladium Xiamen is a private company incorporated in the PRC with limited liability on 16 October 2019. Palladium Xiamen is principally engaged in the design, development and marketing of footwear and related products under the brand Palladium in the PRC.

## 5. BUSINESS OVERVIEW

KP Global Group is principally engaged in the design, development and marketing of footwear and related products for athletic, high-performance sports, adventures and fitness activities under of brands of K-Swiss and Palladium.

K-Swiss is a heritage American athletic shoe brand founded in California in 1966, which offers performance tennis footwear, lifestyle and fitness footwear to meet the high-performance demands of world-class athletes and trendsetters. K-Swiss developed the world’s first real leather tennis shoes and has been regarded as a premium sports brand across the world over the past decades. After the acquisition by the Company in 2019, K-Swiss has undergone a rebranding process and has been positioned as a high-end fashion sportswear brand to capture the burgeoning athleisure trend. K-Swiss focuses on developing its wholesale business in North America, Europe and Asia-Pacific. In recent years, K-Swiss has also been accelerating the expansion of points of sales in premium shopping malls over the tier-one cities in the PRC to reach broader customer base.

Palladium is a global boot brand established in France in 1947, which is famous for its signature military boots and canvas shoes. Palladium offers high-end products that combines fashion, urban and function to tap into the rising athleisure trend. The major targeted customer base of Palladium were teenagers and young adults for long-lasting usage. As advised by the Management, the primary markets of Palladium are located in the Asia-Pacific region, with distribution network covering the PRC, Asia-Pacific Rim, Europe, Middle East, Africa and North America.

Pursuant to the Management, the revenue distribution of KP Global Group by geographical segments for the year ended 31 December 2023 is as follow:

<b>Region</b>	<b>Revenue distribution %</b>
Americas	28.9%
EMEA <sup>1</sup>	20.5%
APAC (ex-China)	21.6%
China	29.0%

*Note:*

(1) This refers to Europe, Middle East, and Africa.



**Figure 1: Extracts of K-Swiss products**

*Source: Official website of K-Swiss*



**Figure 2: Extracts of Palladium products**

*Source: Official website of Palladium*

## 6. FINANCIAL OVERVIEW

The following tables set forth the selected historical financial results of KP Global Group for (i) the year ended 31 December 2021, 2022 and 2023 (collectively, “**Full-Year Track Record Period**”); and (ii) the three months ended 31 March 2024 (“**Partial Track Record Period**” and together with the Full-Year Track Record Period, “**Track Record Periods**”). We have only reviewed the consolidated financial accounts of KP Global Group provided by the Management without independent verification and audit.

	Year ended 31 December		Three months ended	
	2021 <sup>1</sup>	2022 <sup>1</sup>	2023 <sup>1</sup>	31 March 2024 <sup>1</sup>
<i>US\$ million</i>				
Revenue	150.3	210.0	226.9	65.5
Gross profit	66.9	79.0	101.7	33.1
EBITDA	(10.4)	(21.8)	(18.7)	(7.3)
EBIT	(21.1)	(32.8)	(33.6)	(10.1)
Net profit	(15.3)	(23.0)	(31.8)	(9.3)
Total asset	373.7 <sup>2</sup>	425.7 <sup>2</sup>	397.6 <sup>2</sup>	404.3 <sup>2</sup>
Net asset	225.4	197.2	164.1	151.2
EBITDA margin	(6.9)%	(10.4)%	(8.2)%	(11.1)%
EBIT margin	(14.0)%	(15.6)%	(14.8)%	(15.3)%
Net profit margin	(10.2)%	(11.0)%	(14.0)%	(14.2)%
Return on asset	(4.1)%	(5.4)%	(8.0)%	(2.3)%

\* Figures above are subject to rounding.

Notes:

- (1) The financial results are based on unaudited figures.
- (2) Among the total assets, identifiable intangible assets and goodwill amounted to approximately US\$222.4 million, US\$220.6 million and US\$218.5 million for the year ended 31 December 2021, 2022 and 2023 respectively; and US\$217.6 million as at 31 March 2024.

After discussion with the Management, the following summarizes the major financial performance of KP Global Group over the Track Record Periods.

- The increase in revenue was attributable to the enhancement of the product portfolios and retail networks;
- Operating loss and net loss were incurred throughout the Track Record Periods due to increase in selling and distribution cost; and
- Major assets were the intangibles of brand names, business relationship, patents, trademarks and goodwill (“**Intangibles**”), occupying over 50% of the total assets during the Track Record Periods. KP Global would retain minimal net asset value in the event that the Intangibles were excluded.

## 7. ECONOMIC OVERVIEW

This section of economic overview is based on the research conducted by International Monetary Fund (“IMF”) and data provided by Hong Kong Trade Development Council (“HKTDC”).

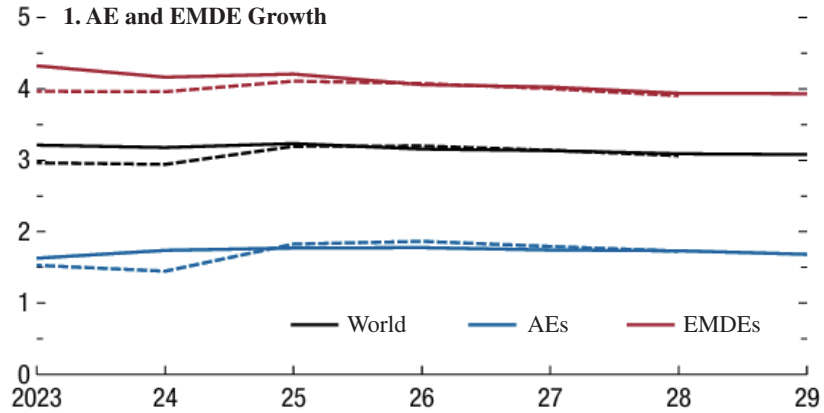
### Global Economy

According to IMF, as a result of long-term consequences of the COVID-19 pandemic, Russia’s invasion of Ukraine, weak growth in productivity, and increasing geoeconomic fragmentation, the world economic activity was resilient during the disinflation period. The world economic output in terms of real gross domestic product (“GDP”) slightly increased from 2.3% in 2022 to 3.2% in 2023, and it is projected to continue at the same pace in 2024 and 2025. For advanced economies, growth is projected to rise from 1.6% in 2023 to 1.7% in 2024 and 1.8% in 2025, reflecting a revision to US growth and a recovery in the euro area. Emerging market and developing economies are expected to experience stable growth of 4.2% in 2024 and 2025, with a moderation in emerging and developing Asia offset mainly by rising growth for economies in the Middle East and Central Asia and for sub-Saharan Africa.

	Real GDP Growth (%)		
	2023	2024E	2025E
<b>World Output</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
<b>Advanced Economies</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Germany	(0.3)	0.2	1.3
France	0.9	0.7	1.4
Italy	0.9	0.7	0.7
Spain	2.5	1.9	2.1
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Canada	1.1	1.2	2.3
Other Advanced Economies	1.8	2.0	2.4
<b>Emerging Market and Developing Economies</b>	<b>4.3</b>	<b>4.2</b>	<b>4.2</b>
Emerging and Developing Asia	5.6	5.2	4.9
China	5.2	4.6	4.1
India	7.8	6.8	6.5
ASEAN	4.1	4.5	4.6
Emerging and Developing Europe	3.2	3.1	2.8
Latin America and the Caribbean	2.3	2.0	2.5

**Table 1: Real GDP growth of the global economies (2023–2025E)**

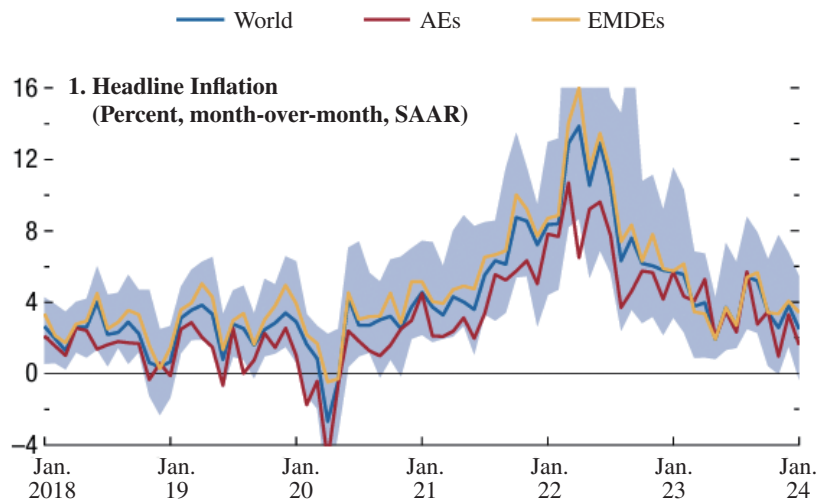
*Source: IMF*



**Figure 3: Real GDP projection (2023–2029E)**

Source: IMF

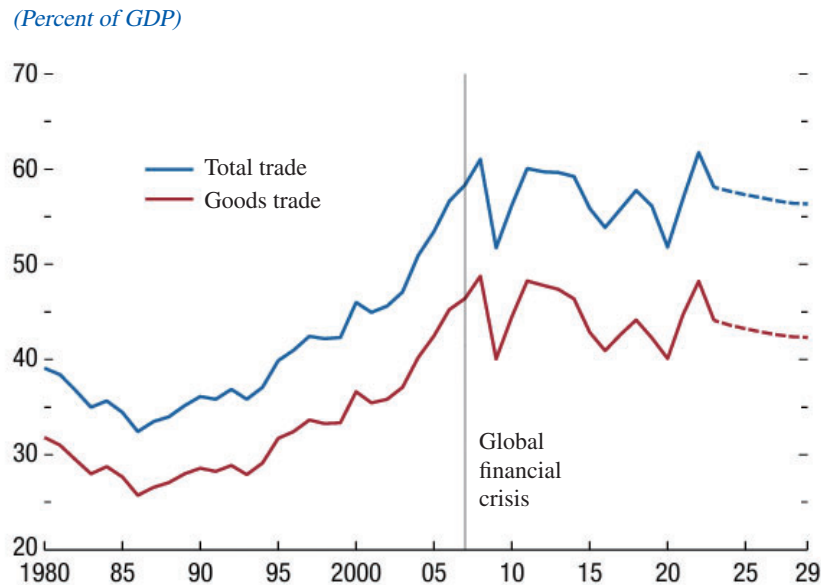
Global headline inflation is expected to fall from an annual average of 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies. The fall in headline inflation since 2022 reflects the decline in energy prices reflects not only increased global energy supply, but also the effects of tight monetary policies.



**Figure 4: Global headline inflation (2018–2024E)**

Source: IMF

World trade growth is projected to remain below its historical annual average growth rate, of 3.0% in 2024 and 3.3% in 2025, resulting from the significant shifts in trade patterns, especially since the start of the war in Ukraine in February 2022, and such reallocation of trade flows is occurring in the context of rising cross-border trade restrictions, with about 3,200 new restrictions on trade in 2022 and about 3,000 in 2023.



**Figure 5: Global trade growth (1980–2029E)**

Source: IMF

### China's Economy

According to the data of HKTDC, China's GDP grew by 5.3% in the first quarter of 2024. Within the same period, added-value industrial output rose by 6.1%, fixed-assets investment increased by 4.5%, retail sales climbed by 4.7%, while the consumer price index remained unchanged on a year-over-year basis. In the first quarter of 2024, exports and imports in US-dollar terms both fell by 1.5%, resulting in a trade surplus of US\$183.7 billion. China's Manufacturing Purchasing Managers' Index ("PMI") rose from 49.1 in February 2024 to 50.8 in March 2024, moving back into the expansion range. Regarding the government economic policies and planning, eight major initiatives designed to bolster co-operation among the Belt and Road Initiative nations have been announced by Xi Jinping, the President of China in 2023. These are set to include the establishment of a new trans-Eurasia logistics corridor and the introduction of a series of e-commerce co-operation pilot zones. These new commitments formed part of the President's opening address at the third Belt and Road Forum for International Co-operation, which were concluded in October 2023.



	2023		January–March 2024	
	Value	Growth (%)	Value	Growth (%)
Gross Domestic Product ( <i>RMB bn</i> )	126,058.2	5.2	29,629.9	5.3
Fixed assets investment ( <i>RMB bn</i> )	50,303.6	3.0	10,004.2	4.5
Consumer goods retail sales ( <i>RMB bn</i> )	47,149.5	7.2	12,032.7	4.7
Exports ( <i>US\$ bn</i> )	3,380.0	(4.6)	807.5	1.5
Imports ( <i>US\$ bn</i> )	2,556.8	(5.5)	623.8	1.5
Trade surplus ( <i>US\$ bn</i> )	823.2	n/a	183.7	n/a
Utilized foreign direct investment ( <i>US\$ bn</i> )	111.8	(9.8)	111.8	(9.8)
Foreign currency reserves ( <i>US\$ bn</i> )	3,238.0	3.5	3,245.7	1.9

**Table 2: China economic indicators (2023–March 2024)**

*Source: HKTDC*

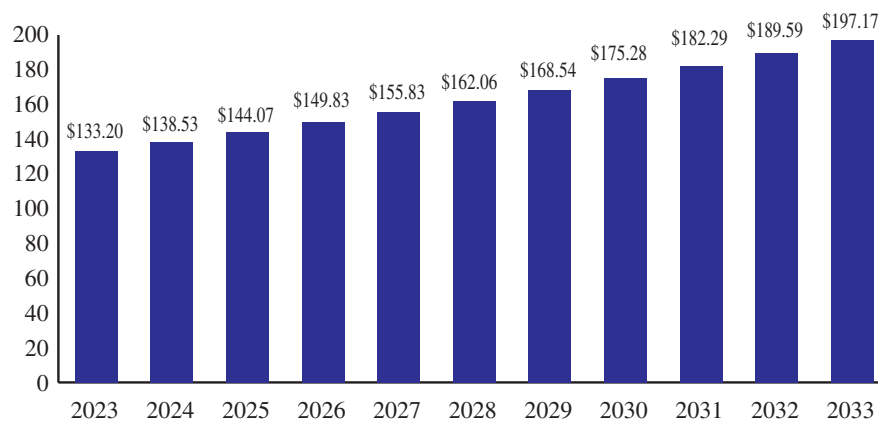
## 8. INDUSTRY OVERVIEW

This section of industry overview is based on the research report and data supplied by the Precedence Research, Polaris Market Research and Statista.

The footwear market has been experiencing continuous growth on account of the shifting preferences of consumers toward footwear that matches their daily outfits, along with the increasing number of individuals wearing different footwear, including shoes, boots, sandals, and slippers etc. for different occasions. The global footwear market size reached US\$243.6 billion in 2023, and it is expected to reach US\$332.3 billion by 2032, at a compound annual growth rate (“**CAGR**”) of 3.4% from 2024 to 2032.

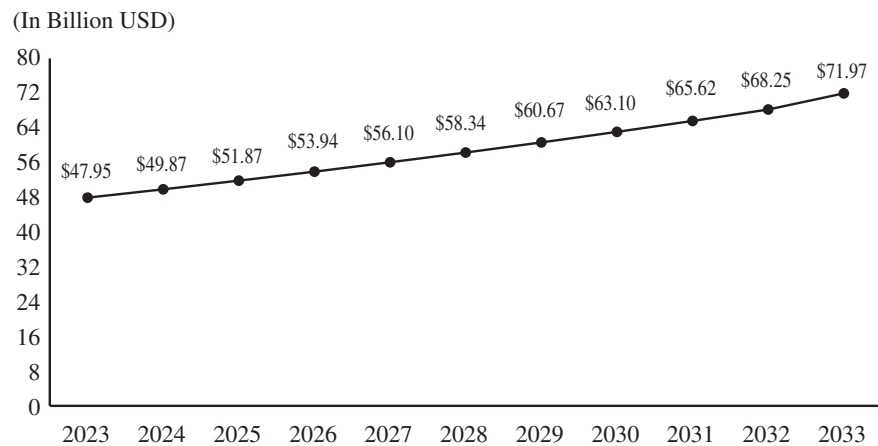
**Athletic Footwear Market**

With the growing enthusiasm and awareness regarding the health benefits of sports and fitness activities, the global athletic footwear market size was valued at US\$133.2 billion in 2023 and is anticipated to reach around US\$197.2 billion by 2033, growing at a CAGR of 5.0% from 2024 to 2033. The Asia Pacific athletic footwear market size was estimated at US\$48.0 billion in 2023, dominating the global athletic footwear market, and it is predicted to be worth around US\$72.0 billion by 2033, at a CAGR of 4.1% from 2024 to 2033. Such persistent high growth rate is propelled by various factors such as rising disposable incomes, expanding reach of e-commerce platforms, as well as growing interest in sports events like the Asian Games, the ICC Cricket World Cup, and the ACC Asia Cup.



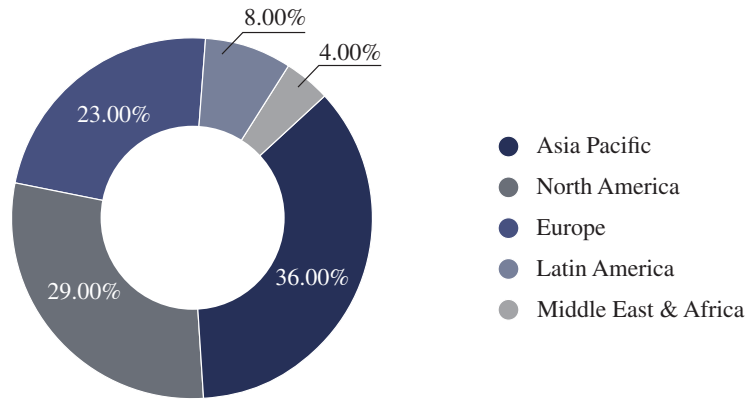
**Figure 6: Global athletic footwear market size (2023–2033E)**

Source: Precedence Research



**Figure 7: Asia-Pacific footwear market size (2023–2033E)**

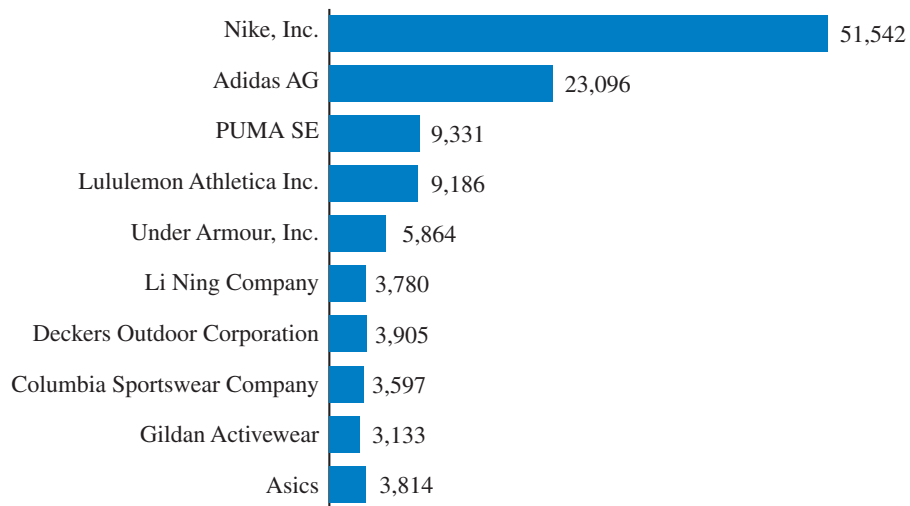
Source: Precedence Research



**Figure 8: Athletic footwear market share by regions, 2023**

Source: Precedence Research

The athletic footwear market is highly competitive, with top players like Nike, Adidas, Puma, and Under Armour dominating the industry. These companies are investing in research and development, endorsements, and expanding their e-commerce presence to maintain their competitive edge. Among the top and recognized footwear brands, Nike is the leader within its industry of athletic apparel, accessories and footwear, with sales reaching over US\$51.5 billion in 2023, and then followed by Adidas and Puma.



**Figure 9: Key athletic companies worldwide 2023**

Source: Statista

It is expected that the athletic footwear market is on a growth trajectory. With lifestyle-related diseases such as obesity and diabetes on the rise, individuals are recognizing the importance of regular physical activity. This awareness has translated into significant demand for athletic footwear across various age groups and demographics. In addition to health consciousness, the athleisure fashion trend has played a crucial role in boosting the athletic footwear market. Consumers seek not only performance but also style in their footwear, leading to the launch of fashionable athletic shoe collections by major brands like Nike, Adidas, and Puma. Technological advancements have enhanced the comfort and performance of athletic shoes. Innovations such as cushioning technologies and smart fitness tracking sensors have attracted both professional athletes and fitness enthusiasts.

### **Boot Market**

Most boots mostly cover the foot and ankle, while some cover a portion of the lower calf. In addition to their practical benefits, boots are worn for reasons of fashion and flair. Functional considerations include providing protection for the foot and leg from water, mud, pests, extreme temperatures, sharp or blunt objects, physical abrasion, corrosive agents, or harmful radiation, as well as providing ankle support and traction for demanding activities like hiking and durability in challenging environments. The global boot market is estimated to reach US\$34.1 billion in 2023 and it is expected to grow at a CAGR of 5.8% from 2023 to 2033. Globally, North America is the leading regional boot market in the world, and it is expected to remain dominant throughout the forecast period due to the high demand for products in countries such as the United States and Canada. On the other hand, as result of the growing demand for trendy and stylish boots in countries such as China and India, Asia Pacific is forecasted to be the fastest-growing global boot market, growing at a CAGR of 6.8% from 2023 to 2033.

The competitive landscape of the global boots market is characterized by intense competition among various players striving to capture market share. The top players in boot market include Timberland LLC, Wolverine Worldwide, Dr. Martens Airwair and Red Wing Shoe Company etc.

In addition to the increasing fashion consciousness and number of hikers and mountaineers, another key factor driving the boot demand globally is urbanization in emerging countries. Rapid urbanization has allowed designers and manufacturers to know their audience more precisely and how to meet their needs. Demand for different types of boots surged, especially among college students and working women. Students and working women are considered fashion-conscious and tend to wear sophisticated dresses. Besides, the height, which is a critical advantage of boots, allows the boots to provide appropriate ankle support and cushioning when the user is impacted.

## 9. INVESTIGATION AND ANALYSIS

Our investigation included discussion with the Management in relation to historical performance, operations and industry, and other relevant information of KP Global Group. In addition, we have made relevant enquiries and obtained such further information including financial and business information, and statistical figures from other sources as we consider necessary for the purpose of this valuation. As part of our analysis, we have made reference to financial information and other pertinent data concerning KP Global Group provided to us by the Management.

The valuation of KP Global Group requires consideration of all pertinent factors, which affect the operations of the business and its ability to generate future investment returns. The factors considered in this valuation include the following:

- Nature and operations of KP Global Group;
- Historical information of KP Global Group;
- Financial condition of KP Global Group;
- Proposed business development of KP Global Group;
- Nature, terms and conditions of relevant agreements, contracts, licenses, permits and rights, if applicable;
- Expected economic income from relevant agreements, contracts, licenses, permits and rights, if applicable;
- Regulations and rules of relevant industries;
- Economic and industry data affecting markets and other dependent industries;
- Market-derived investment return(s) of similar business; and
- General global economic outlook.

## 10. GENERAL VALUATION APPROACHES AND METHODS

There are three generally accepted approaches to value a business subject:

- Market approach;
- Asset approach; and
- Income approach.

Under each approach, a number of methods are available which can be used to assess the value of a business subject. Each method uses a specific procedure to determine the business value.

Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing businesses that are similar in nature. It is also common practice to employ a number of valuation methods under each approach. Therefore, no one business valuation approach or method is definitive. A more detailed discussion of each approach is presented in the *ADDENDUM I — VALUATION APPROACHES* of this report.

## 11. VALUATION ANALYSIS

### 11.1. Methodology

In the process of valuing a business subject, we have taken into consideration of business nature, assets type, specialty of its operations, assets owned, and liabilities assumed and industry it is participating. Having considered the three general valuation methodologies, we believed that the market approach would be appropriate and reasonable in the valuation of KP Global Group.

In this valuation, the income approach is not appropriate as projections of KP Global Group are not available and accessible to us. Also, the use of projections would involve a high level of uncertain, long-term forecast estimates and underlying assumptions. The asset approach is not applied as the valuation of the company is conducted on a going concern basis; therefore, the cost of reproducing and replacing its assets is inappropriate as such method ignores the future economic benefits of the business as a whole. We have therefore solely relied on the market approach in determining our opinion on value.

Under the market approach, the comparable transaction method is not recommended as there are insufficient direct comparable transactions in the market to form a reliable opinion of value. The guideline public company method has been adopted as there are certain publicly traded companies engaged in the same or similar line of business as KP Global Group that can be identified. Among various value and price multiples, we have adopted the Enterprise Value-to-Sales ratio (“**EV/S**”) and the Price-to-Sales ratio (“**P/S**”) for this valuation based on the following reasons:

- KP Global Group has been incurring operating loss during the Track Record Periods, and thus valuation multiples including the Enterprise Value-to-Earnings Before Interests, Taxes, Depreciation & Amortization ratio (“**EV/EBITDA**”), the Enterprise Value-to-Earnings Before Interests & Taxes ratio (“**EV/EBIT**”) and the Price-to-Earnings ratio (“**P/E**”) are not applicable;
- KP Global Group recorded a significant value of goodwill which shared a substantial amount of the total assets throughout the Track Record Periods. The goodwill that recorded as part of accounting book value would inflate the balance sheet, in which the value of the operations may not be truly and fairly representative, leading to a distortion of underlying intrinsic and economic values of the company. Therefore, the Price-to-Book ratio (“**P/B**”) is not a good and relevant indicator;

- As KP Global Group was engaged in footwear industry, in which the key revenue generating assets are mainly the intangible of brand names and patents, the intrinsic value of operations of KP Global Group may not be truly and fairly represented by the tangible assets comprising mainly the trade receivables, inventories, prepayments, deposits and other receivables. In addition, the removal of intangible assets owned by KP Global Group would retain a minimal net asset value which is not appropriate and reasonable for further comparison. Therefore, price-to-tangible book value<sup>1</sup> ratio is not applicable for relative valuation; and
- As a seller of consumer discretionary products, it is common and appropriate to use the sales multiples as sales is always positive and not as easy to manipulate or distort as earnings and book value due to cost structure and accounting policies, and thus produce a more meaningful and unbiased result, forming a positive relationship between sales and valuation.

*Note:*

- (1) The tangible book value, or net tangible asset value is calculated as net asset minus all intangible assets. Based on the financial information as presented in *Section 6 FINANCIAL OVERVIEW* of this report, the net tangible asset value amounted to approximately US\$(54.4) million (which was calculated as net asset of approximately US\$164.1 million minus intangible assets of approximately US\$218.5 million) and US\$(66.4) million (which was calculated as net asset of approximately US\$151.2 million minus intangible assets of approximately US\$217.6 million) as at 31 December 2023 and 31 March 2024 respectively. Therefore, price-to-tangible book value ratio is not applicable in this valuation.

In light of the above, we considered both the EV/S and the P/S ratios are more appropriate and reasonable for this valuation.

## 11.2. Comparable Companies Search

In determining the search criteria, to find the most relevant and appropriate comparable samples, we have considered a number of factors including but not limited to business operations, income stream, products, services and market location of the valuation subject. The following criteria have been adopted for the selection of comparable sample:

- Publicly listed with financial information available as at the Valuation Date;
- Revenue generated across different countries; and
- Over 50.0% of revenue generated from the design, development, marketing and sale of footwear and related products.

Based on the above searching criteria, on best effort basis, we shortlisted the following exhaustive list of comparable companies.

Comparable company	Bloomberg ticker
adidas AG	ADS GR
Puma SE	PUM GR
Geox S.p.A.	GEO IM
Tod's S.p.A.	TOD IM
Dr. Martens PLC	DOCS LN
Protektor SA	PRT PW
Birkenstock Holding Plc	BIRK US
Crocs, Inc.	CROX US
NIKE, Inc.	NKE US
On Holding AG	ONON US
Skechers U.S.A., Inc.	SKX US
Wolverine World Wide, Inc.	WWW US

Source: Bloomberg

We have made a further comparison between KP Global Group and the above shortlisted comparable companies in terms of geographical and business segments. Set forth below are the revenue distributions among the shortlisted comparable companies by geographical and business segments based on their latest available annual financial results:

Ticker	Revenue distribution across different countries				Revenue from the design, development, marketing and sale of footwear and related products
	Americas	EMEA	Asia-Pacific	Others	
KP Global Group	28.9%	20.5%	50.6% <sup>1</sup>	n/a <sup>2</sup>	100%
ADS GR	35.0%	38.4%	25.4%	1.1%	56.6%
PUM GR	39.4%	39.7%	20.8%	n/a <sup>2</sup>	53.3%
GEO IM	3.8%	70.2%	n/a <sup>2</sup>	26.0%	89.9%
TOD IM	8.2%	46.5%	28.5%	16.8%	77.2%
DOCS LN	42.8%	44.3%	12.9%	n/a <sup>2</sup>	100%
PRT PW	n/a <sup>2</sup>	100%	n/a <sup>2</sup>	n/a <sup>2</sup>	100%
BIRK US	53.9%	35.5%	10.2%	0.4%	100%
CROX US	44.9%	n/a <sup>2</sup>	n/a <sup>2</sup>	55.1%	76.0%
NKE US	42.2%	26.2%	26.7%	4.9%	64.7%
ONON US	64.9%	27.3%	7.9%	n/a <sup>2</sup>	95.5%
SKX US	38.1%	n/a <sup>2</sup>	n/a <sup>2</sup>	61.9%	100%
WWW US	74.2%	19.1%	6.7%	n/a <sup>2</sup>	100%

Source: Bloomberg



Notes:

- (1) This refers to the revenue segment sum of APAC (ex-China) and China as stipulated in *Section 5 BUSINESS OVERVIEW*.
- (2) Data is not applicable.

Based on the above findings, all the shortlisted comparable companies are considered to be relevant and appropriate as they generated revenue from the design, development, marketing and sale of footwear and related products across different countries. The basic profile and financial information of the selected comparable companies is set out in *ADDENDUM II — COMPARABLE COMPANIES PROFILES* of this report.

### 11.3. Multiple Ratios

We referred to the latest publicly available annual or interim results of the comparable companies and applied the relevant financial data. Projected financial data are not used as they are unavailable for both the comparable companies and KP Global Group. Multiples are presented as below:

Ticker	Base EV/S	Adjusted EV/S <sup>1</sup>	Base P/S	Adjusted P/S <sup>1</sup>	
ADS GR	1.9	0.4	1.7	0.1	
PUM GR	0.9	0.6	0.7	0.4	
GEO IM	0.7	0.7	0.2	n/a <sup>3</sup>	
TOD IM	1.8	1.1	1.3	0.6	
DOCS LN	1.4	1.1	0.9	0.7	
PRT PW	0.8	n/a <sup>2</sup>	0.4	n/a <sup>3</sup>	
BIRK US	6.2	2.0	5.3	1.1	
CROX US	2.6	1.9	2.2	1.5	
NKE US	2.8	1.3	2.8	1.3	
ONON US	5.5	1.4	5.6	0.9	
SKX US	1.3	0.8	1.1	0.7	
WWW US	0.9	n/a <sup>2</sup>	0.4	n/a <sup>3</sup>	
	Maximum	6.2	2.0	5.6	1.5
	Minimum	0.7	0.4	0.2	0.1
	Median	1.6	1.1	1.2	0.7

\* Figures above are subject to rounding.

Notes:

- (1) The multiples are adjusted for the size differentials between KP Global Group and the comparable companies. The adjustment details are set out in *ADDENDUM III — MULTIPLE ADJUSTMENTS* of this report.
- (2) Data is not available due to the operating loss incurred by the comparable company which distorted the adjustment process.
- (3) Data is not available due to the net loss incurred by the comparable company which distorted the adjustment process.

Based on the above table, we selected (i) the median adjusted EV/S of 1.1, which ranged from the minimum of 0.4 to the maximum of 2.0; and (ii) the median adjusted P/S of 0.7, which ranged from the minimum of 0.1 to the maximum of 1.5. We then applied the multiple ratios to the corresponding measurement base, which is the trailing-twelve-month sales of KP Global Group of approximately US\$235.7 million as at the Valuation Date.

#### 11.4. Control Premium

A control premium (“CP”) is the premium an investor is willing to pay in addition to a marketable minority equity value to obtain controlling interest in a business subject. The published market price of the identified comparable companies represents market transaction of minority interests; therefore, adjustment has been made to reflect the degree of control associated with controlling stake of the valuation subject. According to Mergerstat Control Premium Study, the CP was approximately 18.7% for the EV/S ratio, and approximately 30.3% for the P/S ratio.

#### 11.5. Marketability Discount

We have adopted a lack of marketability discount (“DLOM”) of approximately 20.5% for KP Global Group as ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. The discount is benchmarked to the Stout Restricted Stock Study Companion Guide, a commonly and widely used research study to assist the valuation profession in determining the DLOM.

#### 11.6. Calculation

Based on the above parameters and inputs, the calculation of this valuation is presented as follows:

*EV/S*

		<b>Formula</b>	<b>Unit</b>	<b>Input value</b>
(1)	Multiple ratio			1.1
(2)	Measurement base		US\$ million	235.7 <sup>1</sup>
(3)	Implied value	(1) x (2)	US\$ million	257.6
(4)	Plus CP	(3) x 18.7%	US\$ million	48.2
(5)	Value after CP	(3) + (4)	US\$ million	305.7
(6)	Less DLOM	(5) x 20.5%	US\$ million	62.7
(7)	Less net debt		US\$ million	124.5 <sup>2</sup>
(8)	Fair value of the Equity Interests	(5) – (6) – (7)	US\$ million	118.5

P/S

		<b>Formula</b>	<b>Unit</b>	<b>Input value</b>
(1)	Multiple ratio			0.7
(2)	Measurement base		US\$ million	235.7 <sup>1</sup>
(3)	Implied value	(1) x (2)	US\$ million	163.5
(4)	Plus CP	(3) x 30.3%	US\$ million	49.5
(5)	Value after CP	(3) + (4)	US\$ million	213.1
(6)	Less DLOM	(5) x 20.5%	US\$ million	43.7
(7)	Fair value of the Equity Interests	(5) – (6)	US\$ million	169.4

\* Figures above are subject to rounding.

Notes:

- (1) This is the past 12 consecutive months revenue of KP Global Group before the Valuation Date and is the sum of (i) revenue for nine months ended 31 December 2023 and (ii) revenue for three months ended 31 March 2024, which are presented in the *Section 6. FINANCIAL OVERVIEW* of this report.
- (2) This is the net of sum of excess cash and debt amounted to US\$48.8 million and US\$173.3 million respectively.

Based on the above analysis, the implied value of the Equity Interests ranged from approximately US\$118.5 million to US\$169.4 million as at the Valuation Date, indicating an average of approximately US\$144.0 million.

## 12. VALUATION ASSUMPTIONS

- KP Global Group is assumed to have no contingent assets and liabilities or any other off-balance sheet items which should be recognized or valued attributable to KP Global Group;
- To continue as a going concern, KP Global Group will successfully carry out all necessary activities for the development of its business;
- The contractual parties of relevant agreements will act in accordance with the terms and conditions of the agreements and understandings between the parties and will be renewable upon expiry, if applicable;
- The unaudited financial and operational information of KP Global Group as supplied to us have been prepared in a manner which truly and accurately reflect the financial position of KP Global Group as at the respective balance sheet dates;
- Market trends and conditions where KP Global Group operates will not deviate significantly from the economic forecasts in general;

- Key management, competent personnel and technical staff will all be retained to support ongoing operations of KP Global Group;
- There will be no material changes in the business strategy of KP Global Group and its expected operating structure;
- Interest rates and exchange rates in the localities for the operations of KP Global Group will not differ materially from those presently prevailing;
- All relevant consents, business certificates, licenses or other legislative or administrative approvals from any local, provincial or national government, or private entity or organization required to operate in the localities where KP Global Group operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and
- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which KP Global Group operates or intends to operate, which would adversely affect the revenues and profits attributable to KP Global Group.

### 13. LIMITING CONDITIONS

Our conclusion of the value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Our work in connection with this engagement is of a different nature to that of a formal audit or a review of information, as those terms are understood in applicable to relevant auditing and accounting standards. We do not, as part of this exercise, perform an audit, review, or examination of any of the historical, present or prospective financial information used and therefore, do not express any opinions with regard to it.

This valuation reflects facts and conditions existing as at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report is reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made, nor liability assumed for their accuracy. The value might be adjusted should more specific and update information of the valuation subject is made available to us.

We have made reference to the information provided by the Management in arriving at our opinion on value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and that any material facts have been omitted from the information provided. No responsibility for the operational and financial information that have not been provided to us is accepted.

We accept no responsibility for the realization and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this report. We assumed that financial and other information provided to us are accurate and complete.

We have not investigated the title to or any legal liabilities against KP Global Group. We have assumed no responsibility for the title to KP Global Group.

Save as and except for the purpose stated above, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

In accordance with our standard practices, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. Furthermore, the report and conclusion of value(s) are not intended by the author, and should not be construed by the reader, to be investment advice in any manner whatsoever. The conclusion of value(s) represents the consideration based on information furnished by the Company/engagement parties and other sources. No responsibility is accepted to any third party for the whole or any part of its contents.

Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

We would particularly point out that our valuation was based on the information such as company background, business nature, market share, and future prospects of KP Global Group provided to us by the Management.

#### **14. REMARKS**

The Management has reviewed and agreed on the report and confirmed the factual content of the report.

We hereby confirm that we have neither present nor prospective interests in KP Global Group, the Group or the value reported herein.

**15. OPINION ON VALUE**

Based on the investigation and analysis stated above and on the valuation methods employed, we are of the opinion that the fair value of the Equity Interests as at the Valuation Date was in the sum of **US\$143,958,000 (UNITED STATES DOLLARS ONE HUNDRED FORTY-THREE MILLION NINE HUNDRED AND FIFTY-EIGHT THOUSAND ONLY)**.

Respectfully submitted,  
For and on behalf of  
**VALPLUS CONSULTING LIMITED**  
**Damon S.T. Wan, CFA, FRM, MRICS**  
*Founding Partner*

Analysed and reported by: **Willy T.Y. Yu, CESGA**  
*Associate Director*

**Stella S.Y. Lam, CFA**  
*Manager*

**ADDENDUM I — VALUATION APPROACHES****Market Approach**

The market approach values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for an indication of value from the prices of other similar companies or equity interests in companies that were sold recently.

The right transactions employed in analysing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on the analysis of those transactions are then applied to the fundamental financial variables of the subject business entity to derive an indication of value.

**Asset Approach**

The asset approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals the value of its invested capital (equity and debt capital). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operations, the sum of such assets equals the value of the business entity.

From a valuation perspective, we will restate the values of all types of assets of a business entity from book values, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", to arrive at the value of the equity interests of the business entity.

**Income Approach**

The income approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the income approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.



**ADDENDUM II — COMPARABLE COMPANIES PROFILES****adidas AG — ADS GR Equity**

adidas AG manufactures sports shoes and sports equipment. The company produces products that include footwear, sports apparel, and golf clubs and balls. Adidas sells its products worldwide.

**Puma SE — PUM GR Equity**

Puma SE designs, manufactures, and sells sporting goods and apparels. The company produces running, tennis, training, and basketball shoes, as well as t-shirts and accessories. Puma serves customers worldwide.

**Geox S.p.A. — GEO IM Equity**

Geox S.p.A. retails apparel. The company offers jackets, t-shirts, sweatshirts, and hoodies products including sandals, sneakers, pumps, and ankle boots, as well as provides delivery services. Geox serves customers in Italy and overseas.

**Tod's S.p.A. — TOD IM Equity**

Tod's S.p.A. manufactures and retails men's, women's, and sports shoes. The company's signature shoe is a loafer with rubber spikes on the sole and heel. Brand names include Tod's, Hogan, and Fay. The company operates owned and franchised stores in Europe, the United States, Asia, and the Middle East.

**Dr. Martens PLC — DOCS LN Equity**

Dr. Martens PLC manufactures footwear products. The company offers boots, shoes, and sandals for men and women. Dr. Martens serves customers worldwide.

**Protektor SA — PRT PW Equity**

Protektor SA manufactures footwear. The company produces hiking, safety, and work boots, footwear for the military and police, and leather accessories such as purses, wallets, luggage, and backpacks. It wholesales its products locally and abroad.

**Birkenstock Holding Plc — BIRK US Equity**

Birkenstock Holding Plc operates as a holding company. The company, through its subsidiaries, manufactures anatomically shaped footbed-based products that provides natural support and stimulation, promoting even weight distribution, fully supported arches, and no unnatural pressure points from heel to toe. Birkenstock Holding serves customers worldwide.

**Crocs, Inc. — CROX US Equity**

Crocs, Inc. designs, manufactures, and retails shoes. The company offers clogs, sandals, slides, flip-flops, boots, sneakers, and casual footwear. Crocs serves customers worldwide.

**NIKE, Inc. — NKE US Equity**

NIKE, Inc. designs, develops, and markets athletic footwear, apparel, equipment, and accessory products for men, women, and children. The company sells its products to retail stores, through its own stores, subsidiaries, and distributors. NIKE serves customers worldwide.

**On Holding AG — ONON US Equity**

On Holding AG operates as a holding company. The company, through its subsidiaries, provides footwear and sports apparel products includes ultralight and stretchable fabrics and accessories. On Holding serves customers worldwide.

**Skechers U.S.A., Inc. — SKX US Equity**

Skechers U.S.A., Inc. designs and markets branded contemporary casual, active, rugged, and lifestyle footwear for men, women, and children. The company sells its products to department stores and specialty retailers. Skechers U.S.A. also sells its products internationally through distributors and directly to consumers through its own retail stores.

**Wolverine World Wide, Inc. — WWW US Equity**

Wolverine World Wide, Inc. manufactures and markets branded footwear and performance leathers. The company provides shoes, slippers, occupational and safety footwear, and performance outdoor footwear, among others. Wolverine World Wide serves customers in the United States and overseas.

**Summary of key financial information of selected comparable companies**

<b>Ticker</b>	<b>Revenue</b> <i>HK\$ million</i>	<b>Net profits</b> <i>HK\$ million</i>	<b>Net asset value</b> <i>HK\$ million</i>	<b>Market capitalization</b> <i>HK\$ million</i>
ADS GR	183,402.2	1,137.2	41,132.4	314,439.7
PUM GR	72,273.8	2,332.9	23,345.5	53,293.7
GEO IM	6,092.7	(54.6)	782.8	1,469.6
TOD IM	9,539.8	423.5	9,424.8	12,023.5
DOCS LN	9,393.7	991.7	3,475.2	8,337.5
PRT PW	179.4	(1.5)	77.3	78.9
BIRK US	13,115.4	775.4	21,275.1	69,456.5
CROX US	31,429.3	6,224.2	12,497.3	68,086.4
NKE US	403,709.1	40,941.5	111,376.8	1,114,400.0
ONON US	15,622.0	693.9	10,000.6	88,262.6
SKX US	64,551.6	4,631.9	32,443.9	73,486.4
WWW US	15,949.5	(572.0)	1,975.9	7,010.8

*Source: Bloomberg*

**ADDENDUM III — MULTIPLE ADJUSTMENTS**

While the larger companies generally have lower expected returns that translate into higher values, the small companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher and resulting in lower multiples. Therefore, the EV/S and P/S multiple of the comparable companies were adjusted to reflect their differences in company sizes from KP Global Group by using the following equation:

$$\text{Adjusted multiples} = 1/((1/M) + \theta * \varepsilon^1 * \alpha)$$

where:

- M = The base multiple
- $\theta$  = Required adjustment for difference in size
- $\varepsilon^1$  = The ratio of the market capitalization to the enterprise value of the comparable company
- $\alpha$  = The scale factor, which converts the base measure of the benefits to an alternative measure of the benefits for the guideline company

*Note:*

- (1) For the price multiple,  $\varepsilon$  is considered as 1 as the base benefit has already granted to the equity portion.

The EV/S and the P/S ratios from the comparable companies were used as the base multiple M in this valuation. The logic behind the price multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. For the parameter  $\theta$ , it was used as a desired adjustment to reflect the difference in size between the comparable companies and KP Global Group, and the size risk premium is sourced from “*CRSP Deciles Size Premia*” by Kroll, LLC.

For the EV/S multiple, the ratio of market capitalization to enterprise value  $\varepsilon$ , was adopted as a weighting factor. As aforesaid, the logic behind the adjustment formula is that a price multiple is the reciprocal of the capitalization rate. In the case of a value multiple, the capitalization rate is driven by the weighted average cost of capital (“WACC”) of the valuation subject. Since the size risk premium differential  $\theta$  is applicable only to the equity portion (for comparable company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, therefore, only the equity portion of the capitalization rate in this pricing multiple adjustment formula shall be adjusted. The ratio  $\varepsilon$  was used to apply an appropriate weighting on the parameter  $\theta$  so that the capitalization rate was adjusted only to the extent of its equity portion.

For the value multiple, it is considered that the base measure of the benefits for enterprise value to be after-tax EBIT. On the other hand, for the price multiple, net profit is considered as the base measure of the benefits for equity value. Since the EV/S and the P/S ratios were adopted in this valuation, revenue becomes an alternative measure of the benefits in the adjustment formula. Therefore, the parameter  $\alpha$ , representing the ratio of revenue to after-tax EBIT and revenue to net profit was used as a scale factor.

Based on the above analysis, the adjustment logics of the EV/S ratio and the P/S ratios are set forth as below.

## EV/S

Ticker	Base EV/S (M)	Size differential <sup>1</sup> (θ)	Market capitalization/ Enterprise value <sup>2</sup> (ε)	Sales/ After-tax EBIT <sup>2</sup> (α)	Adjusted EV/S
ADS GR	1.9	4.0%	88.8%	60.7	0.4
PUM GR	0.9	4.0%	81.3%	18.7	0.6
GEO IM	0.7	0.0%	33.3%	46.2	0.7
TOD IM	1.8	3.5%	69.4%	16.2	1.1
DOCS LN	1.4	3.5%	64.3%	7.5	1.1
PRT PW	0.8	(2.9)%	56.9%	n/a <sup>3</sup>	n/a <sup>3</sup>
BIRK US	6.2	4.0%	85.8%	10.0	2.0
CROX US	2.6	4.0%	82.1%	4.3	1.9
NKE US	2.8	4.0%	97.8%	10.5	1.3
ONON US	5.5	4.0%	102.9%	13.4	1.4
SKX US	1.3	4.0%	93.1%	11.8	0.8
WWW US	0.9	3.5%	51.5%	n/a <sup>3</sup>	n/a <sup>3</sup>

## P/S

Ticker	Base P/S (M)	Size differential <sup>1</sup> (θ)	Sales/ Net profit <sup>2</sup> (α)	Adjusted P/S
ADS GR	1.7	4.0%	161.3	0.1
PUM GR	0.7	4.0%	31.0	0.4
GEO IM	0.2	0.0%	n/a <sup>4</sup>	n/a <sup>4</sup>
TOD IM	1.3	3.5%	22.5	0.6
DOCS LN	0.9	3.5%	9.5	0.7
PRT PW	0.4	(2.9)%	n/a <sup>4</sup>	n/a <sup>4</sup>
BIRK US	5.3	4.0%	16.9	1.1
CROX US	2.2	4.0%	5.0	1.5
NKE US	2.8	4.0%	9.9	1.3
ONON US	5.6	4.0%	22.5	0.9
SKX US	1.1	4.0%	13.9	0.7
WWW US	0.4	3.5%	n/a <sup>4</sup>	n/a <sup>4</sup>

\* Figures above are subject to rounding.

*Notes:*

- (1) This refers to the difference in size risk premium based on the equity value between the valuation subject and the comparable companies, based on the size premium scaling table published by Kroll, LLC. The rounded scaling is tabulated as below:

<b>Equity size range (US\$ million)</b>	<b>Size premium</b>
Above 3,010.8	0.7%
554.5 to 3,010.8	1.2%
212.6 to 554.5	2.9%
97.4 to 212.6	4.7%
Below 97.4	7.6%

- (2) The data are referenced to Bloomberg.
- (3) Data is not available due to the negative sales/after-tax EBIT scaling ratio.
- (4) Data is not available due to the negative sales/net profit scaling ratio.

**ADDENDUM IV — STAFF BIOGRAPHY**

**Damon S.T. Wan**, *CFA, FRM, MRICS*  
Founding Partner

Mr. Damon S.T. Wan is a CFA Charterholder, a Certified FRM and a member of Royal Institution of Chartered Surveyors. Mr. Wan has been working in the professional valuation field since 2008. He is experienced and specialized in performing properties, financial instruments, intangible assets and business valuations for the purposes of corporate advisory, merger & acquisition and public listing.

**Willy T.Y. Yu**, *CESGA*  
Associate Director

Mr. Willy T.Y. Yu is a Certified ESG Analyst and has been working in the banking and financial industry since 2014. He possesses experience in the aspects of corporate credit risk, cash trading, business valuation and ESG analysis.

**Stella S.Y. Lam**, *CFA*  
Manager

Ms. Stella S.Y. Lam is a CFA Charterholder and has been working in the valuation industry since 2016. She is experienced in intangible assets, financial instruments and business valuation.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### a. Interests of Directors

As at the Latest Practicable Date, the Directors and the chief executive of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix C3 to the Listing Rules:

#### Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company <sup>(1)</sup>
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust <sup>(2)</sup> / Beneficial interests <sup>(3)</sup>	1,302,037,000	49.24%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust <sup>(2)</sup> / Beneficial interests <sup>(4)</sup>	1,232,059,500	46.59%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust <sup>(2)</sup> / Beneficial interests <sup>(5)</sup>	1,232,859,500	46.62%
Mr. Tan Wee Seng	Beneficial interests <sup>(6)</sup>	283,068	0.01%

*Notes:*

- (1) It was based on 2,644,517,925 issued Shares as at the Latest Practicable Date.
- (2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a “**Family Trust**” and collectively, the “**Family Trusts**”) for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts. The Family Trusts (through their controlled companies) indirectly hold 1,230,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,230,059,500 Shares.
- (3) Mr. Ding Shui Po was also beneficially interested in 71,977,500 Shares.
- (4) Ms. Ding Mei Qing was also beneficially interested in 2,000,000 Shares.
- (5) Mr. Ding Ming Zhong was also beneficially interested in 2,800,000 Shares.
- (6) 100,000 of these Shares were issued to Mr. Tan Wee Seng upon the exercise of options granted on 7 December 2011 under the share option scheme adopted by the Company on 7 May 2008. 180,000 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange. The remaining 3,068 of these Shares were received by Mr. Tan Wee Seng by way of scrip dividends for the 2020 final dividend.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code. As at the Latest Practicable Date, other than our three executive Directors, namely (i) Mr. Ding Shui Po, being a director of Ding Wang Fortune Limited (“**Ding Wang**”), Wan Xing International Holdings Limited (“**Wan Xing**”) and Group Success Investments Limited (“**Group Success**”), (ii) Ms. Ding Mei Qing, being a director of Guan Hong Development Limited (“**Guan Hong**”); and (iii) Mr. Ding Ming Zhong, being a director of Ming Zhong Family Limited (“**Ming Zhong**”), none of the Directors was also a director or employee of any substantial shareholder of the Company.



## b. Interests of Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following person or corporation (other than a Director or chief executive of the Company) had, or were deemed to have an interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company <sup>(1)</sup>
Group Success	Beneficial interests	1,230,059,500	46.51%
Wan Xing	Interests of controlled corporation <sup>(2)</sup>	1,230,059,500	46.51%
Ding Wang	Interests of controlled corporation <sup>(3)</sup>	1,230,059,500	46.51%
Guan Hong	Interests of controlled corporation <sup>(3)</sup>	1,230,059,500	46.51%
Ming Zhong	Interests of controlled corporation <sup>(3)</sup>	1,230,059,500	46.51%
UBS Trustees (BVI) Limited	Trustee <sup>(3)</sup>	1,230,059,500	46.51%
GSUM IV Holdings Limited	Beneficial interests <sup>(4)</sup>	169,684,196	6.42%
Hillhouse Focused Growth Fund V, L.P.	Interests of controlled corporation <sup>(4)</sup>	169,684,196	6.42%
Hillhouse Investment Management, Ltd.	Interest of controlled corporation <sup>(4)</sup>	169,684,196	6.42%

*Notes:*

- (1) It was based on 2,644,517,925 issued Shares as at the Latest Practicable Date.
- (2) Wan Xing is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a Family Trust for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang, Guan Hong and Ming Zhong as the respective trust assets under the Family Trusts. Each of Ding Wang, Guan Hong and Ming Zhong is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing, which is in turn held as to 67%, 21% and 12% by Ding Wang, Guan Hong and Ming Zhong, respectively.
- (4) GSUM IV Holdings Limited is wholly controlled by Hillhouse Investment V, Ltd. which is wholly controlled by Hillhouse Focused Growth Fund V, L.P., and its investment manager is Hillhouse Investment Management, Ltd. Hillhouse Focused Growth Fund V, L.P. and Hillhouse Investment Management, Ltd. are therefore deemed to be interested in the underlying Shares held by GSUM IV Holdings Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### **3. DIRECTORS' INTERESTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2023, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group.

There was no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant to the business of the Group.

### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, there was no existing or proposed service agreement between any Director and any member of the Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### **5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or any of their respective close associates had engaged in any business that competes or may compete with the business of the Group or had any other conflict of interests with the Group.

### **6. MATERIAL ADVERSE CHANGE**

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date.

### **7. MATERIAL LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group.

## 8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Red Sun Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Valplus Consulting Limited	Independent valuer

As at the Latest Practicable Date, neither of the above experts were beneficially interested in the share capital of any member of the Group nor did any of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did any of them have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Group were made up (i.e. 31 December 2023), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which they are included.

## 9. MISCELLANEOUS

- (a) Mr. Cheung Yan Kiu is the company secretary and authorised representative of the Company. Mr. Cheung joined the Group in 2019 and served as the finance controller of the Group. Mr. Cheung was responsible for the financial and accounting affairs of the athleisure segment. Before joining the Group, he worked in an international accounting firm for over nine years in both assurance and transaction advisory services. He has extensive experience in accounting, mergers and acquisitions, taxation, financial management and corporate governance. Mr. Cheung is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA), a member of the Institute of Chartered Accountants in England and Wales (ICAEW), and a member of CPA Australia. He is also a Chartered Financial Analyst (CFA), Financial Risk Manager (FRM) and Chartered Alternative Investment Analyst (CAIA). Additionally, Mr. Cheung has obtained a certificate from the CFA Institute in ESG investing. Mr. Cheung graduated with a Bachelor of Business Administration in Accounting and Finance degree from The University of Hong Kong.
- (b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

- (c) The principal place of business of the Company in Hong Kong is at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.

#### **10. DOCUMENTS ON DISPLAY**

Copies of the following documents are published on the HKExnews website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Group ([www.xtep.com.hk](http://www.xtep.com.hk)) for a period of 14 days from the date of this circular:

- (a) the Share Purchase Agreement;
- (b) the K-Swiss Convertible Bonds Redemption Agreement;
- (c) the Xtep Subscription Agreement; and
- (d) the KP Subscription Agreement.

**NOTICE OF THE EXTRAORDINARY GENERAL MEETING**



**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)**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** the extraordinary general meeting (the “**EGM**”) of Xtep International Holdings Limited (the “**Company**”) will be held at 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong at 2:30 p.m. on Friday, 23 August 2024 to consider and, if thought fit, transact the following business:

**ORDINARY RESOLUTIONS**

1. “**THAT** the entry into and the performance by the Company of the share purchase agreement dated 9 May 2024 entered into between the Company and Ding Shun Investment Limited in relation to the disposal (the “**Disposal**”) of the entire issued share capital of KP Global Investment Limited (“**KP Global**”) by the Company (the “**Share Purchase Agreement**”) (a copy of which is tabled at the EGM and marked “A” and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and is hereby approved, confirmed and ratified, and the directors of the Company be and are hereby authorised to do such acts and things and to take such steps as they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Share Purchase Agreement and the transactions contemplated thereunder.”
2. “**THAT** conditional upon the passing of resolution no.1 above, and subject to the fulfilment of the conditions set out in the section headed “Conditions of the declaration of the Special Dividend” in the “Letter from the Board” in the circular of the Company dated 2 August 2024, the declaration and payment of a special dividend (the “**Special Dividend**”) of HK\$0.447 per ordinary share of the Company (the “**Share(s)**”) to the shareholders of the Company whose names appear on the register of members of the Company on the record date fixed by the board of directors of the Company for determining the entitlements to the Special Dividend be and is hereby approved and confirmed, and the directors of the Company be and are hereby authorised to do such acts and things and to take such steps as they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of the payment of the Special Dividend.”

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

3. “**THAT** conditional upon the passing of resolution no.1 above, the entry into and the performance by the Company of the subscription agreement dated 9 May 2024 entered into between the Company and KP Global in relation to the proposed subscription of the 3.5% convertible bonds due 2032 in the principal amount of US\$154,000,000 to be issued by KP Global to the Company and the relevant bond instrument to be executed by the parties (the “**KP Convertible Bonds Documents**”) (a copy of which is tabled at the EGM and marked “B” and signed by the chairman of the EGM for identification purpose), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified, and the directors of the Company be and are hereby authorised to do such acts and things and to take such steps as they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the KP Convertible Bonds Documents and the transactions contemplated thereunder.”
4. “**THAT** the waiver sought by Mr. Ding Shui Po and Ms. Ding Mei Qing in respect of certain non-competition restrictions set out in the deed of non-compete dated 7 May 2008 executed by the then controlling shareholders of the Company in favour of the Company (the “**Waiver**”) be and is hereby approved and confirmed, and the directors of the Company be and are hereby authorised to do such acts and things and to take such steps as they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of the grant of the Waiver.”

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

Hong Kong, 2 August 2024

*As at the date of this notice, the executive directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong; the non-executive director of the Company is Mr. Tan Wee Seng; and the independent non-executive directors of the Company are Dr. Bao Ming Xiao, Dr. Wu Ka Chee, Davy and Dr. Chan Yee Wah.*

*Registered office:*

Cricket Square, Hutchins Drive P.O. Box 2681  
Grand Cayman KY1-1111, Cayman Islands

*Principal place of business in Hong Kong:*

Unit A, 27/F, Tower A  
Billion Centre, 1 Wang Kwong Road  
Kowloon Bay, Kowloon, Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or, if he is the holder of two or more Shares, one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the offices of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the commencement of the above meeting or any adjournment thereof.
3. In order to determine the entitlement to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from Monday, 19 August 2024 to Friday, 23 August 2024, both days inclusive, during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the EGM is Friday, 23 August 2024. In order to be eligible to attend and vote at the forthcoming EGM to be held on Friday, 23 August 2024, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 16 August 2024.
4. In order to determine the entitlement to the proposed Special Dividend, the transfer books and register of members of the Company will be closed from Thursday, 5 September 2024 to Monday, 9 September 2024, both days inclusive, during which period no transfer of Shares will be effected. The record date for entitlement to the proposed Special Dividend is Monday, 9 September 2024. In order to be eligible to receive the proposed Special Dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 4 September 2024. Further details in relation to the payment date of the Special Dividend will be set out in an announcement of the Company to be published on or around the completion of the Disposal.
5. In the case of joint holders of a Share, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. In the event of any inconsistency, the English version of this notice shall prevail over the Chinese version.