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Xtep International Holdings Limited

特步國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

**CONTINUING CONNECTED TRANSACTIONS
LEASE FRAMEWORK AGREEMENT**

Reference is made to the announcement of the Company dated 21 December 2018 relating to, inter alia, the Existing Leases entered into between the Group and HD Century, whereby HD Century leased various premises, which comprise of office units, to the Group.

As the terms of certain Existing Leases will expire on 31 December 2021 and the Company expected that the number of premises to be leased by the Group from HD Century and the total amount of rent payable to HD Century will increase, the Company entered into the Lease Framework Agreement with HD Century on 8 December 2021 to govern the renewal of the Existing Leases and the entering into of new leases from time to time for the operations of the Group for the period from 1 January 2022 to 31 December 2024, subject to the annual caps.

As Wan Xing is the controlling shareholder of the Company indirectly interested in approximately 49.81% of the issued share capital of the Company as at the date of this announcement, each of Wan Xing and its subsidiaries (being the associates of Wan Xing) is a connected person of the Company. HD Century, being an indirect wholly-owned subsidiary of Wan Xing, is a connected person of the Company. Therefore, the transactions contemplated under the Lease Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the proposed annual caps for the Lease Framework Agreement exceeds 0.1% but are all less than 5%, the transactions contemplated under the Lease Framework Agreement are subject to the reporting, announcement and annual review requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 21 December 2018 relating to, inter alia, the Existing Leases entered into between the Group and HD Century, whereby HD Century leased various premises, which mainly comprise of office units, to the Group.

As the terms of certain Existing Leases will expire on 31 December 2021 and the Company expected that the number of premises to be leased by the Group from HD Century and the total amount of rent payable to HD Century will increase, the Company entered into the Lease Framework Agreement with HD Century on 8 December 2021 to govern the renewal of the Existing Leases and the entering into of new leases from time to time for the operations of the Group for the period from 1 January 2022 to 31 December 2024, subject to the annual caps.

LEASE FRAMEWORK AGREEMENT

The principal terms of the Lease Framework Agreement are set out below:

| | |
|------------------------|--|
| Date: | 8 December 2021 |
| Parties: | (i) HD Century (ii) the Company |
| Term: | For the period of three years commencing from 1 January 2022 and ending on 31 December 2024 |
| Subject matter: | HD Century may, from time to time, lease premises in the PRC to the Group for office or other uses for its operations. |

HD Century and the Group shall enter into individual lease agreements in respect of each of the Leases, setting out specific terms of leasing arrangements. Such terms should be consistent with the principles and terms of the Lease Framework Agreement.

Pricing policy:

The Group shall determine the rent payable for each of the Leases after arm's length negotiations with HD Century based on normal commercial principles with reference to the prevailing market rent of leases of comparable premises, the historical quotation to other Independent Third Parties by HD Century for similar leases, and other factors such as floor area, facilities and location.

To ensure the rent payable under each of the Leases is fair and reasonable and is not less favourable than the rent payable to Independent Third Parties in respect of the same or similar premises, the management of the Company will follow the below procedures before entering into the Leases:

- (i) search for actual rental transactions of the same premises, premises in the same building and premises in the neighboring area (where such transactions are not available, refer to real estate industry publications describing price trends in the relevant areas);
- (ii) compare the said market rent (or price trends, where applicable) with the rent payable under the Leases; and
- (iii) in cases where rent payable offer by HD Century is higher than the said market rent (or price trends, where applicable), request HD Century to reduce the rent payable to the extent of such difference.

Historical Transaction Amounts

The table below shows the historical figures of the rent (rounded to the nearest million RMB) paid by the Group to HD Century and the total value of right-of-use assets related to the Existing Leases for the year ended 31 December 2019 and 2020 and the year ending 31 December 2021:

| | For the year ended 31 December 2019 <i>(RMB million)</i> | For the year ended 31 December 2020 <i>(RMB million)</i> | For the year ending 31 December 2021 <i>(RMB million)</i> (unaudited) |
|------------------------------|--|--|--|
| Rent amount | 9 | 10 | 12 |
| Value of right-of-use assets | 30 | 5 | 10 |

Proposed Annual Caps

The table below shows the proposed annual caps, which represent the total value of right-of-use assets relating to the Leases to be entered into by the Group with HD Century each year under the Lease Framework Agreement, for the three years ending 31 December 2024:

| | For the year ending 31 December | | |
|----------------------|--|-------------------------------------|-------------------------------------|
| | 2022 <i>(RMB million)</i> | 2023 <i>(RMB million)</i> | 2024 <i>(RMB million)</i> |
| Proposed annual caps | 20 | 10 | 15 |

According to the accounting standard HKFRS 16, the Group is required to recognize a right-of-use asset and a lease liability. The right-of-use assets should be initially measured at cost and should be amortised on a straight line basis using the shorter of the useful life of the right-of-use asset and the lease term. Lease liability should be initially measured at the present value of the lease payables that are not paid as at commencement day of the lease term, discounted using the lessees' incremental borrowing rate. As a result, the Group is required to set annual caps on the total value of right-of-use assets related to the Leases entered into in each year under the Lease Framework Agreement.

The above annual caps are determined by the Directors with reference to (i) the weighted average lessees' incremental borrowing rate applied to the lease liabilities; (ii) the expected rental of leased properties payable to HD Century by the Group

during the term of the Lease Framework Agreement; (iii) the expected rental level of premises and offices in the PRC in the real property market; and (iv) provision of buffer for an unexpected increase in the demand for the leasing of HD Century's properties and the level of rental of premises or offices in the PRC in the real property market.

In view of the above factors, the Directors (including the independent non-executive Directors) are of the view that the above proposed annual caps under the Lease Framework Agreement are fair and reasonable and in the interests of the Group and its Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE FRAMEWORK AGREEMENT

The Group has continuously and actively considered different means to control or minimise its costs so as to maintain or enhance its competitiveness. The Directors (including the independent non-executive Directors) considered that it would be commercially beneficial to the Group to lease office units from HD Century as it is expected that the Group can benefit from the well-developed supporting facilities available at the premises of HD Century, and they will improve the Group's efficiency in operation and management. The Group therefore anticipates that it will continue to lease from HD Century to satisfy the future business needs of the Group from time to time. Accordingly, the Company and HD Century have entered into the Lease Framework Agreement to set out a framework of the terms on which they may renew or enter into certain lease agreements.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Lease Framework Agreement and the transactions contemplated thereunder, including the proposed annual caps, are fair and reasonable; and the Lease Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Group and its Shareholders as a whole.

INTERNAL CONTROL MEASURES

In order to ensure that the pricing basis in the Lease Framework Agreement is adhered to, the Company has also adopted the following internal control measures in respect of each of the Leases to be entered into under the Lease Framework Agreement:

- (i) the relevant operation departments and management of the Group will examine the proposed rent under the Leases in order to ensure that such rent is determined based on arm's length negotiations between the parties and the terms of the Leases are fair and reasonable, on normal commercial terms and on terms that are no less favourable to the Group than those available from Independent Third Parties;
- (ii) the finance department of the Group will regularly (a) review whether the Leases have been entered into in accordance with the terms of the Lease Framework Agreement; and (b) monitor the amounts under the Leases to ensure that the proposed annual caps are not exceeded; and
- (iii) the Group will comply with the requirements under the connected transaction rules of the Listing Rules for the annual review by the independent auditor and the independent non-executive directors in respect of the transactions contemplated under the Lease Framework Agreement.

By implementing the above measures, the Directors (including the independent non-executive Directors) of the Company consider that the Group has appropriate internal control procedures to ensure that the transactions under the Lease Framework Agreement will be conducted on normal commercial terms and in the interests of the Group and its Shareholders as a whole.

INFORMATION ON THE GROUP AND HD CENTURY

The Company is a company incorporated in the Cayman Islands with limited liability. It is a leading multi-brand sportswear company listed on the Main Board of the Stock Exchange. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand “Xtep” is a leading professional sports brand with an extensive distribution network of over 6,000 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

HD Century is a company established in the PRC with limited liability, which is mainly engaged in management consulting, investment advising, and clothing production.

IMPLICATIONS UNDER THE LISTING RULES

As Wan Xing is the controlling shareholder of the Company indirectly interested in approximately 49.81% of the issued share capital of the Company as at the date of this announcement, each of Wan Xing and its subsidiaries (being the associates of Wan Xing) is a connected person of the Company. HD Century, being an indirect wholly-owned subsidiary of Wan Xing, is a connected person of the Company. Therefore, the transactions contemplated under the Lease Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the proposed annual caps for the Lease Framework Agreement exceeds 0.1% but are all less than 5%, the transactions contemplated under the Lease Framework Agreement are subject to the reporting, announcement and annual review requirements, but exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong, executive Directors, was deemed to be interested in approximately 49.81% of the total issued share capital of the Company through Wan Xing as at the date of this announcement by virtue of the SFO. Accordingly, Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong, being Directors who may have a material interest, have voluntarily abstained from voting on the board resolution(s) of the Company concerning the Lease Framework Agreement and the proposed annual caps.

DEFINITIONS

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

| | |
|---------------------------|---|
| “associates” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the Board of Directors |
| “Company” | Xtep International Holdings Limited (特步國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “controlling shareholder” | has the meaning ascribed to it under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Existing Leases” | leases entered into between the Group and HD Century prior to the Lease Framework Agreement |
| “Group” | the Company and its subsidiaries |
| “HD Century” | Hu Du Century (Xiamen) Investment Management Co., Ltd.* (虎都世紀(廈門)投資管理有限公司), a company incorporated in the PRC, an indirect wholly-owned subsidiary of Wan Xing and an associate of the controlling shareholder of the Company |
| “HKFRS” | Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |

| | |
|--------------------------------|---|
| “Independent Third Party(ies)” | third party(ies) independent of and not connected with the Company or its connected persons |
| “Lease(s)” | the new leases which may be entered into by the Group with HD Century under the Lease Framework Agreement |
| “Lease Framework Agreement” | the framework agreement dated 8 December 2021 entered into between the Company and HD Century, which governs the renewal of the Existing Leases and the entering into of new leases for the period from 1 January 2022 to 31 December 2024 |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “PRC” | the People’s Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “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 |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed to it under the Listing Rules |
| “Wan Xing” | Wan Xing International Holdings Limited, a limited liability company incorporated in the British Virgin Islands which is indirectly interested in approximately 49.81% of the issued share capital of the Company as at the date of this announcement |

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong
“RMB” Renminbi, the lawful currency of the PRC
“%” per cent.

* *The English transliteration of the Chinese name(s) in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

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

Hong Kong, 8 December 2021

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