



特步國際控股有限公司
Xtep International Holdings Limited

Xtep Announces FY2013 Annual Results

2013 Annual Results Highlights

- Revenue and profit attributable to equity shareholders amounted to RMB4,343.1 million and RMB606.0 million, respectively
- Gross profit and operating profit margins stood at 40.2% and 20.6%, respectively
- Posted positive operating cash flows to RMB657.7 million and a solid Balance Sheet
 - Net bank balance increased 8.7% to RMB2,863.1 million (2012: RMB2,634.5 million)
 - Gearing ratio was 20.9% (2012: 16.1%)
 - Net asset value per Share increased 5.1% to RMB2.07 (2012: RMB1.97)
- Proposed final dividend of HK8.0 cents per Share, with a high dividend payout ratio of 51.3%

[12 March 2014, Hong Kong] - Leading PRC fashion sportswear enterprise **Xtep International Holdings Limited** (the "Company", together with its subsidiaries, the "Group") (Stock code: 1368) today announced its annual results for the year ended 31 December 2013 (the "Year").

Stable Profit Margins

During the Year, the Group's total revenue amounted to RMB4,343.1 million, representing a decrease of 21.7% over the previous year (2012: RMB5,550.3 million), in line with its self-initiated sales order reductions, with an aim to mitigate inventory risks, accelerate operational efficiency and profitability of its retail channels. Despite the overall revenue decline and an increase of the wholesale discount rate from 60% in 2012 to 62% in 2013, the Group was able to sustain its gross profit margin at 40.2% (2012: 40.7%) and increase the operating profit margin to 20.6% (2012: 20.4%) by deploying effective cost controls and sound financial management. Profit attributable to ordinary equity shareholders was RMB606.0 million, representing a decrease of 25.2% over the previous year (2012: RMB810.0 million). Basic earnings per Share stood at RMB27.84 cents (2012: RMB37.22 cents).

Positive Cash Flow and Solid Balance Sheet

Backed by an effective working capital management, the Group posted a healthy positive operating cash flow and solid balance sheet. As of 31 December 2013, the Group's total cash and bank balances amounted to RMB4,388.6 million (2012: RMB3,680.0 million), representing an increase of RMB708.6 million. Net cash inflow from operating activities amounted to RMB657.7 million. The total net assets of the Group amounted to RMB4,507.6 million (2012: RMB4,279.8 million), representing an increase of 5.3%.

High Dividend Payout

The Board recommended a final dividend of HK8.0 cents (2012: basic HK10.0 cents; special HK4.5 cents) per Share. Together with the interim dividend of HK10.0 cents (2012: HK13.2 cents), the total dividend for the Year amounted to HK18.0 cents (2012: HK27.7 cents) per Share, representing a total dividend payout ratio of 51.3% (2012: basic 50.8%; special 9.8%).

BUSINESS REVIEW

During the Year, the Group set the following strategic initiatives to uphold its leading fashion sportswear brand position amid challenging market landscape:

- 1) Sustaining Xtep's leading fashion sportswear brand position through effective branding strategies
- 2) Offering distinctive products appealing to the mass market alongside its marketing focus on popular sports
- 3) Imposing stringent management control over its retail channels through extensive DRP System coverage and supply chain controls

Effective Branding Strategies

Through its unique dual-marketing strategy incorporating sports and entertainment elements, Xtep stands out from its domestic peers with its distinctive brand image. In 2013, Xtep was re-appointed by the Central government as the sole official sportswear partner of the National Games for the third consecutive time. In addition, Xtep was named as the sole apparel sponsor of 14 delegation teams out of 38 participating teams. With over one third of delegation teams wearing Xtep's outfits throughout the 13-day event, the Group enjoyed significant brand exposure.

In addition to sponsoring prominent national sporting events, the Group continued its sports marketing strategy by aligning Xtep with popular sports such as running and football so as to strengthen its brand awareness in the mass market. During the Year, the Group sponsored ten international marathons in the PRC and Hong Kong, two title sponsorships for national campus football leagues -- namely, the China University Football League and the Chinese College Futsal League -- and the endorsement of a number of domestic and foreign football clubs.

The Group also reinforced its celebrity endorsement strategy to amplify Xtep's brand desirability through entertainment marketing. "Xtep Stars", including Nicholas Tse, Han Geng, Gwei Lun-mei and Justin Gatlin, achieved enormous success in their respective endeavors. Their outstanding performance and public acclaim in sports and entertainment fields effectively brought about the youthful and lively image of Xtep as well as the market appeal of Xtep products.

Distinctive Product Offerings

Thanks to successful sports marketing campaigns on running/marathon and backed by its strong brand equity and high quality footwear product offerings at the best value-for-money, the revenue mix of Xtep footwear products increased to 51.8% (2012: 48.8%). As the Group's footwear products enjoyed slightly higher gross profit margin, while the entry barrier in the footwear business was relative high, the Group believed that such increase of footwear products revenue mix has a favorable impact to the Group's overall product portfolio in the long run.

To further enhance Xtep product design and functionality, and explore new materials and products, the Group increased its R&D investment by 16.6% to RMB111.4 million (2012: RMB95.5 million), accounting for 2.6% of the Group's total revenue.

Eyeing ongoing urbanization, growing number of affluent and middle class in PRC 2nd- to 4th-tier cities, along with increasing awareness of healthy lifestyles and rising popularity of sports among consumers in the PRC, the Group delicately managed its diversified product portfolio by dividing its product lines into two big categories: *Sports Performance Collection* and *Sports Lifestyle Collection*. Among which, the Group has further enriched its running, outdoor, "Xtep Kids", and "XTOP" product series. For the

Year under review, the Sports Performance Collection and the Sports Lifestyle Collection accounted for about 45% and 55% of the Group's total product portfolio, respectively.

During the Year, the Group entered into a strategic partnership with CCTV Kids channel, the most influential children's television channel in the PRC, in order to boost brand awareness and exposure of its "Xtep Kids" series. As of 31 December 2013, the Group had around 300 retail POS selling "Xtep Kids" products.

Stringent Retail Channel Management

To improve the overall operational efficiency of its retail channels, the Group adjusted its retail distribution network by closing under-performing stores or relocating stores to prime locations in certain cities. As of 31 December 2013, the total number of Xtep retail outlets was 7,360 (2012: 7,510). The Group believes that such geographical footprint in the PRC is necessary in order to uphold its market presence and nationwide dominance. In order to ensure real-time monitoring of key operating data, the Group further expanded its DRP System coverage to approximately 80% (2012: 75%), enabling the Group to consistently manage product supplies within retail channels.

Effective Supply Chain Management

A lean and efficient supply chain backed by the comparative advantage of its solid in-house production capacity is one of the keys to success .

For the year under review, the Group streamlined its supply chain and further enhanced its in-house production facilities in Anhui, the new production plant, and its main production facilities in Quanzhou, Fujian. The total production capacity of footwear and apparel products of the Group was approximately 17.0 million pairs and 8.5 million pieces, respectively. The total sales volume of the Group of footwear and apparel was approximately 26.5 million pairs and 30.2 million pieces, respectively, representing the in-house production ratio of footwear and apparel were 64% (2012: 51%) and 28% (2012: 15%), respectively. Such increases in the in-house production contributed to production cost reductions and gross profit margin enhancement.

E-commerce

In order to capture the rapid growth of online sales market, the Group consolidated its online sales channels through the internet and online social media platforms, and continued its strategic partnerships with a number of leading and well-established online shopping websites such as tmall.com, taoxie.com, taobao.com, JD.com etc. In 2013, the fledging e-commerce of the Group won a number of awards for its outstanding sales performance and quality sales services, to name a few, the Group was ranked no.1 in sportswear sales for the year among the "Top 10 Sales Breakthrough Online Stores" by Tencent QQ Wanggou and First runner-up in terms of sales contribution under Sports & Outdoors Category by Tencent ECC.

FUTURE OUTLOOK

According to 2013 data from Euromonitor, sports-inspired apparel and footwear products will contribute 42% of total sportswear growth globally over the next five years, reinforcing the unique branding position of Xtep as fashion sportswear to be the winner in the long run. Looking ahead, the operating environment for China sportswear industry is mixed with both challenges and opportunities, against the backdrop of organic industry growth and opportunities driven by accelerating social-economic development in the PRC.

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep, said, "Retail channel management continues to be our key focus in 2014 and our efforts made last year begins to bear fruits. Our recent operating data such as retail channel inventory, retail discounts, product sell-through rates and sales orders for first three quarters of 2014 reveal that a recovery is underway, given their ongoing improvement trends."

Stepping into 2014, the Group has set a number of strategic initiatives to uphold and strengthen its market position. To further strengthen its leading market position in the running sector, the Group renewed the five-year sponsorship (2014-2018) with the Xiamen International Marathon for the second time and entered into a three-year sponsorship agreement for the Standard Chartered Hong Kong Marathon from 2014 to 2016, on top of the new sponsorship of Chongqing International Marathon signed from 2014 to 2018.

Also, the Group will retain the current level of its retail channels with approximately 7,300-7,400 Xtep retail outlets by the end of 2014 with a stronger market presence in the Northern and Northeast region. To optimize the retail operational efficiency, the Group will continue to closely monitor the retail channels via its extensive DRP System coverage to gauge and provide comprehensive guidance on sales orders. Meanwhile, to further capture the kidswear market in the PRC, the Group reaffirms its plan to have about 350 Xtep Kids POS in PRC's 2nd- to 4th-tier cities by the end of 2014.

Mr. Ding concluded, "Leveraging on our effective branding strategies, extensive distribution network nationwide and competitive advantage of our solid in-house production capacity, we are ready to seize the opportunities stemming from increasing demand due to growing sports awareness, urbanization and brand consolidation and will grow stronger after this round of industry consolidation."

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About Xtep International Holdings Limited

Listed on June 3, 2008 on the Main Board of the Hong Kong Stock Exchange, Xtep International Holdings Limited is a leading PRC fashion sportswear enterprise. It is principally engaged in the design, development, manufacturing, sales and marketing of sports footwear, apparel and accessories. Xtep boasts an extensive distribution network of over 7,000 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC.

For more information, please visit Xtep's corporate website: www.xtep.com.hk

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Appendix



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2013 Annual Results Highlights

Financial Highlights (For the year ended 31 December)			
	2013	2012	Change
<i>Profitability data (RMB million)</i>			
Revenue	4,343.1	5,550.3	-21.7%
Gross profit	1,747.6	2,257.7	-22.6%
Operating profit	895.4	1,131.3	-20.9%
Profit attributable to equity shareholders	606.0	810.0	-25.2%
Net cash flows from operating activities	657.7	1,330.3	-50.5%
Basic earnings per Share (RMB cents)	27.84	37.22	-25.2%
<i>Profitability ratios (%)</i>			
Gross profit margin	40.2%	40.7%	-0.5pt
Operating profit margin	20.6%	20.4%	+0.2pt
Net profit margin	14.0%	14.6%	-0.6pt
Effective tax rate	30.1%	27.0%	+3.1pt

Operational Highlights (For the year ended 31 December)			
	2013	2012	Change
Xtep Products			
Revenue (RMB million)	4,180.3	5,474.5	-23.6%
Gross Profit Margin (%)	40.8%	40.9%	-0.1pt
Footwear			
Revenue (RMB million)	2,166.5	2,671.2	-18.9%
Gross Profit Margin (%)	41.5%	41.5%	+0.0%
Apparel			
Revenue (RMB million)	1,933.1	2,702.1	-28.5%
Gross Profit Margin (%)	40.2%	40.5%	-0.3pt
Accessories			
Revenue (RMB million)	80.7	101.2	-20.3%
Gross Profit Margin (%)	34.3%	33.3%	+1.0pt