



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

Xtep Announces 2016 Annual Results
Full Year Dividend Payout Ratio Maintained at 60%
Gross Profit Margin Expanded to 43.2%
Deepened Restructuring to Ensure Sustainable Long-term Growth

Financial Highlights

- Total revenue increased by 1.9% YoY to RMB 5,396.6 million
- Overall gross profit margin **rose 4 years in a row**. 2016 gross profit margin increase by 1.0 percentage point to 43.2% YoY, attributable to the shift of product mix towards higher margin professional sportswear products
- Apparel gross profit margin increased significantly by 2.0 percentage points to 41.7%, while footwear gross profit margin went up to 44.0%, and accessories gross profit margin expanded to 41.0% as well
- Operating profit before provisions up by 19.6% YoY to reach RMB 1,139.2 million
- Net profit for the year declined by 15.2% to RMB 527.9 million (2015: RMB 622.6 million) mainly due to the provisions of trade receivables of RMB 222.2 million (2015: RMB 31.7 million) which were mainly related to the restructure and realignment of XTEP Kids business
- Strong cashflow, with total bank deposits and bank balances of RMB 4,245.3 million and net cash inflow from operating activities of RMB 345.8 million
- Proposed final dividend HK 3.25 cents and special dividend HK 2.75 cents per Share, together with interim dividend of HK 10.5 cents per Share, annual payout ratio maintained at 60%

Operational Highlights

- Restructuring towards professional sports brand with stylish and functional products continued with internal resources realignment
- Branding: Advertising and promotion cost normalized to 11.8%, with focus on sports marketing and some less effective general marketing programs was reduced
- Products: Increased R&D costs by 13.9% to RMB138.2 million, continued to hire international design talent and cooperate with leading international material developers, and built the first dedicated running research laboratory in China
- Retail management: Stringent retail channel management control led to excellent inventory management. Inventory turnover days **continued to reduce for 4 consecutive years** to 51 days (2015: 58 days; 2014: 71 days; 2013: 79 days)
- E-commerce revenue continued to grow quickly and accounted for approximately high-teens percentage of overall revenue

17 March 2017, Hong Kong – Leading PRC-based professional sportswear enterprise **Xtep International Holdings Limited** (the “Company”, together with its subsidiaries, the “Group”) (Stock code: 1368) today announced its audited annual results for year ended 31 December 2016 (the “Year”).

XTEP’s restructuring towards a professional sports brand with stylish and functional products deepened in 2016 with changes to internal resources realignment. The Group achieved a revenue growth of 1.9% to RMB 5,396.6 million (2015: RMB 5,295.1 million), where the increase in footwear and e-commerce business revenue was somewhat offset by intentional reduction of sports lifestyle apparel. The positive result of product mix shift toward higher margin professional sportswear products have become clearly evident, where the Group’s overall gross profit margin expanded by 1.0 percentage point to 43.2% (2015: 42.2%). Gross profit margin for all product segments, footwear, apparel, and accessories increased, while gross profit margin for apparel rose most significantly by 2.0 percentage points to 41.7%. Operating profit before provisions of trade receivables rose by 19.6% to RMB 1,139.2 million (2015: RMB 952.8 million). Provision for trade receivables amounted to RMB 222.2 million, mainly due to the long outstanding trade receivables mainly related to the restructuring of the XTEP Kids business. Profit attributable to equity shareholders declined by 15.2% to RMB 527.9 million (2015: RMB 622.6 million) mainly due to such trade receivable provisions. Basic earnings per share amounted to RMB 23.89 cents (2015: RMB 28.97 cents).

The Board recommends a final dividend of HK 3.25 cents (2015: HK 7.0 cents) per Share and a special dividend of HK 2.75 cents (2015: HK 3.5 cents) per Share, together with the interim dividend of HK 10.5 cents (2015: HK 10.0 cents) per Share, the annual payout ratio maintained at 60%.

As at 31 December 2016, the Group's total net assets amounted to RMB 5,022.8 million (as at 31 December 2015: RMB 4,871.7 million). Total bank deposits and bank balance was RMB 4,245.3 million, and operating cash inflow was healthy at RMB 345.8 million.

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, said, "2016 was a year of restructuring and realignment of internal resources for the Group with the goal of making long-term gains. The operations of the Group are now synchronized to achieve optimal efficiency. Through innovation in functional sports products, effective retail channel management, e-commerce, increased sports marketing, as well as forging ahead with the "3+" strategies, the Group looks forward to long-term sustainable growth."

Business Review

Focused on Sports Marketing and Promotion

The Group has re-oriented its branding resources to devote more focus to sports marketing and reduced some of the less effective general marketing programs. This helped to normalize the advertising and promotion cost to 11.8% of overall revenue, similar to historical levels before 2014. The shift to performance sports has broadened its consumer base both in age and in recognition of its technical capabilities as a professional sports brand.

Running remained the core sports category of focus for the Group. In 2016, XTEP carried position of the sportswear brand that sponsored the most number of marathons in China, with sponsorship of 24 major marathons and a total of 44 major running events. It became the official partner of China Marathon (中國馬拉松官方合作夥伴) recognized by China Athletic Association (中國田徑協會) in August 2016, title sponsored the Beijing Olympic Forest Park XTEP Running Track (奧林匹克森林公園特步跑道), and organized the "3.21 Running Festival" as an annual celebration for runners in China as well as other social running event.

Echoing the strong push for football development by the Chinese government, the Group announced its comprehensive football strategy "Blade Project" (鋒芒計劃) in April 2016. The project targets to serve over 5 million Chinese football youths in five years. XTEP had the unique advantage of brand recognition associated with football with its sponsorships since 2010 that served over 70,000 players from primary to university school leagues. Those players tested the Group's football products on the field, and helped us to design the highest quality and best fitting products for the Chinese football player.

High Functionality Products with Stylish Design

The Group increased the total R&D costs by 13.9% to RMB 138.2 million (2015: RMB 121.3 million) to improve the performance and quality of functional sportswear products. The Group has built a team of designers led by international design talent and cooperated with leading international fiber material developers, such as the Dow Chemical Company, 3M and INVISTA in the United States, and Toray in Japan, to co-develop fiber technology for XTEP's exclusive use, in order to stay ahead of global trends. For example, the Group co-developed "SoftpadTM" with the Dow Chemical Company, with exclusive usage rights until 2019, and will continue to apply it to both functional sports and sports-lifestyle footwear in the future.

For running products, in addition to the three core professional running technology series of "Dynamic Foam" (動力巢), "Reactive Coil" (減震旋) and "Air Mega" (氣能環), the Group has combined two or more technologies to create footwear products with even higher performance and comfort. Other major technologies used in multiple sports and lifestyle categories include "Air Comfort" (透氣網), "COMFYCUBES" (柔立方), "Dow" (仙護盾) and "ThinsulateTM". The Group also launched the smart running shoe "XTEP Motion". The key technologies used for apparel products included "X-SEAMLESS-TECH" (無縫一體工藝), "XTEP-WARM", "XTEP-FROZEN" (冰纖科技), "XTEP-DRY" (酷乾科技), "Xtep Sports Elastic Technology" (X-S.E.T.特步運動彈性科技) and "X-REFLECT" (反光科技).

The Group has built China's first dedicated running research laboratory, led by international scientists and employing global leading research technologies, to develop the best running shoes for Chinese runners.

In football products, the first XTEP professional football series “Blade I” was launched in stores in June 2016. The series tailored European football cleats for Chinese football players’ feet and Chinese football facilities. XTEP football apparels carried forth lightweight and quick-dry materials similar to running products. This is another advantage for the Group, where it can apply its expertise in running to other sports categories. Further technical modification to the football products will be unveiled in new product generations in 2017.

Launching the new football product line marked the beginning of organic growth for the Group with multiple sports product categories under the XTEP brand umbrella. The Group will launch more categories of high performance value for money sports products under the XTEP brand in 2017.

Enhanced Efficiency because of Retail Channel Management

The Group implemented stringent retail channel management control to monitor the operations of stores operated by its Exclusive Distributors and Authorized Retailers. It refined and flattened the distribution channel and resulted in increased operational efficiency with more unified brand image and lower inventory. As at 31 December 2016, the inventory turnover days continued to decrease 4 years in a row to 51 days (2015: 58 days; 2014: 71 days; 2013: 79 days) and the total number of XTEP retail stores was approximately 6,800 (2015: 7,000). Same store sales growth maintained mid-single digit during the fourth quarter of 2016, while retail inventory also remained at a healthy 4-5 months level.

The Group continued to execute the universal retail store image upgrade to “7th generation” stores, making it a physical experience center for consumers. Its centralized DRP system covered over 90% of XTEP retail stores to facilitate real-time monitoring. The “Super Shopping Guide” APP has been rolled out to around 80% of XTEP stores, covering over 20,000 staffs, enabling the Group to quickly act upon customer retail behavior.

For long-term business growth, the Group restructured the XTEP Kids division in 2016. The new XTEP Kids’ products will more closely resemble adult sports lifestyle products, and matching parent-children sets will be available. Material sourcing and production will be more streamlined with the adult business, cutting down cost and manufacturing time. Retail network will be more consolidated with its adult distribution network. As China implements the new second child policy and parents are devoting increasing amounts of resources to quality products for their children, the Group sees the high profit generation potential of the children’s product business from a reputable brand like XTEP.

E-commerce Continues to be a Key Growth Driver

Revenue derived from the Group’s e-commerce platform has increased significantly, with XTEP maintaining its position in 2016 as the top sports footwear seller on Tmall.com and JD.com by volume, over all other domestic and international brands. XTEP was the first sportswear company to start using an O2O model with distributors in China; by 31 December 2016, around half of the products on the e-commerce platform were part of the O2O system. The model was rolled out to around 1,200 stores as at 31 December 2016, the Group plans to expand it to cover 2,000-3,000 stores by the end of 2017.

Outlook

The Group will continue to undergo its restructuring process in 2017, repositioning XTEP as a professional sports brand with stylish and functional products, and strive to generate long-term value for the whole Group. The restructuring has already led to higher sales efficiency per store and stronger inventory control throughout the entire retail network. The Group will continue to implement the “3+” business strategy of “Products+”, “Sports+” and “Internet+” for sustainable growth.

With respect to “Products+”, in the second quarter of 2017, XTEP will replace technology-based running shoes series with three new series created to match different frequency runners’ needs. They are RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑) to fit the needs of marathon runners, routine runners and entry-level runners, respectively. One of the highlights is the RC 160 (競速160) professional marathon shoes, which is the lightest running shoe in China weighing only 160 grams. Apparel technologies will be consolidated into six core technology platforms: XTEP-DRY, XTEP-COOL, XTEP-WARM, XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER.

In addition, XTEP product categories will expand to high growth potential categories beyond running and football, such as outdoor products, female focused products and indoor fitness products. The Group will launch new celebrity product lines with its spokespersons, and also a new product line with Transformers. These types of cooperation will further strengthen XTEP’s brand recognition, broaden consumer base, and generate additional revenue for the Group.

Regarding “Sports+”, the Group continues the vision of being a part of, and operating, a running ecosystem beyond products and sponsorships, and even beyond the sports industry to applications in other industries. It will continue to sponsor major marathons and more varieties of running events to further enhance XTEP's association with running in China, such as XTEP 3.21 Running Festival, evening marathons, women's marathons, retail store led local running events, and training camps. Its Beijing Olympic Forest Park XTEP Running Track and XTEP flagship stores serve as gathering points for runners nation-wide. The Xtep Motion Tracker APP fosters a closer bond between XTEP and runners by providing tailor-made products and services to users by analyzing their data.

For “Internet+”, the Group will harness the power of the internet, mobile internet and other digital technologies for achieving omni-channel precise marketing. This will connect and create a seamless retail system and runners' community among Xtep online shops, Xtep offline stores, constomers, XTEP Runner's Club members, XTEP Motion APP users and marathon participants. Also, within retail stores, the Group will carry-out smart retail in 2017, using automatic traffic counter (客流計數器), e-payment, foot scanner (足型掃描器) and other new technologies to give consumers more personalized services and also help the Group gain more insights about consumer behavior.

The Group will complete the O2O loop by linking its online channel with its factory outlet stores, which will enable it to maintain minimum retail inventory level for the entire retail network and quickly replenish popular products to maximize sales. E-commerce will also be a convenient low risk channel for XTEP to test new markets and expand its footprint overseas, as well as raise its profile.

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About Xtep International Holdings Limited (Stock code: 1368)

Listed on 3 June 2008 on the Main Board of the Hong Kong Stock Exchange, Xtep is a leading PRC-based professional sports brand providing stylish and functional products. It is principally engaged in the design, development, manufacturing, sales and marketing, and brand management of sportswear products, including footwear, apparel and accessories. During the past several years, the Group has been actively implementing its sports marketing strategy with a focus on running and football. It boasts an extensive distribution network of approximately 6,800 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. Xtep is a constituent of MSCI China Small Cap Index, Hang Seng Composite Index Series and Shenzhen-Hong Kong Stock Connect.

For more information, please visit Xtep's corporate website: www.xtep.com.hk or scan the Group's Wechat QR code below (or search by: xtepholdings or 特步控股).

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Appendix



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2016 Annual Results Highlights

Financial Highlights (For the Year ended 31 December)			
	2016	2015	Change
Profitability Data (RMB million)			
Revenue	5,396.6	5,295.1	+1.9%
Gross Profit	2,331.3	2,236.7	+4.2%
Operating Profit before Provisions of Trade Receivables	1,139.2	952.8	+19.6%
Profit Attributable to Equity Shareholders	527.9	622.6	-15.2%
Basic Earnings per share (RMB cents)	23.89	28.97	-17.5%
Profitability Ratios (%)			
Gross Profit Margin	43.2	42.2	+1.0pp
Operating Profit Margin before Provisions of Trade Receivables	21.1	18.0	+3.1pp
Net Profit Margin	9.8	11.8	-2.0pp
Final Dividend Payout Ratio	60	60	Maintained
Cashflow (RMB million)			
Total Bank Deposits and Bank Balances	4,245.3	4,476.8	-5.2%
Gearing Ratio (%)	18.4	19.8	-1.4pp

Operational Highlights (For the Year ended 31 December)			
Group Revenue & Gross Profit Margin Breakdown By Product Category			
	2016	2015	Change
Footwear			
Revenue (RMB million)	3,525.4	3,258.1	+8.2%
Gross Profit Margin (%)	44.0	43.8	+0.2pp
Apparel			
Revenue (RMB million)	1,764.8	1,926.6	-8.4%
Gross Profit Margin (%)	41.7	39.7	+2.0pp
Accessories			
Revenue (RMB million)	106.4	110.4	-3.6%
Gross Profit Margin (%)	41.0	39.7	+1.3pp