



## Xtep Announces 2012 Annual Results

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**Benefited from Revenue Increase from Xtep Brand Products**  
**The Group's Total Revenue Remained Steady with Sound Financial Performance**  
**Operating Cash Inflow Increased by 5.5 Times to Approx. RMB1,330 million**  
**Reward Shareholders with a Special Dividend to Celebrate Xtep's 10<sup>th</sup> Anniversary**  
**Total Dividend Payout Ratio for the Year Reached 61%**

### 2012 Annual Results Highlights

- The Group's total revenue grew by 0.2% to approximately RMB5,550.3 million
- Gross profit margin of Xtep brand products increased by 0.1 percentage point to 40.9%
- Net asset value per Share increased by 9.4% to RMB1.97 (approx. HK\$2.42)
- Operating cash inflow increased by 5.5 times to approximately RMB1,330.3 million
- To celebrate Xtep's milestone 10th anniversary and reward the support from its shareholders, the Board recommended a final dividend of HK10.0 cents, an extra of 10% of the profit as special dividend of HK4.5 cents per Share. As a result, together with the interim dividend of HK13.2 cents, the total dividend for the year ended 31 December 2012 amounted to HK27.7 cents per Share, representing a total dividend payout ratio of 61%

[15 March 2013, Hong Kong] **Xtep International Holdings Limited** ("Xtep" or the "Company", together with its subsidiaries the "Group", stock code: 1368.HK), a leading fashion sportswear enterprise in the PRC, today announced its annual results for the year ended 31 December 2012 (the "Year").

### Steady Financial Performance

Despite challenging operating environment, Xtep recorded steady growth with a total revenue of RMB5,550.3 million (2011: RMB 5,539.6 million), representing an increase of approximately 0.2% over last year. In particular, the Group achieved satisfactory revenue growth from its footwear products due to the successful marketing and promotional efforts as well as a clear focus on its core running category. Revenue from Xtep brand products increased by approximately 1.9% to RMB5,474.5 million (2011: RMB5,374.9 million). Revenue from Xtep's footwear recorded 10.2% increase. The Group's overall gross profit margin was maintained at a healthy level of 40.7%. Profit attributable to equity shareholders was approximately RMB810.0 million (2011: RMB966.4 million), representing a decrease of about 16.2% over the last year.

### Strong Operating Cash Flow and Healthy Balance Sheet

During the Year, the Group implemented prudent and effective working capital management with operational cash inflow significantly increased by 5.5 times to approximately RMB1,330.3 million (2011: RMB204.2 million). Coupled with careful utilization of cash and bank balances, the Group achieved a stable financial condition. As at 31 December 2012, the Group's total cash and bank balances amounted to RMB3,680.0 million (2011: RMB2,589.8 million), representing an increase of RMB1,090.2 million.

### **High Dividend Payout Ratio**

The Board recommended a final dividend of HK 10.0 cents (2011: HK 14.5 cents) per Share. In addition, to celebrate Xtep's 10th anniversary, the Board recommended an extra 10% of the profit as special dividend of HK 4.5 cents (2011: nil) per Share. As a result, together with the interim dividend of HK 13.2 cents (2011: HK 13.0 cents), the total dividend for the year ended 31 December 2012 amounted to HK 27.7 cents (2011: HK 27.5 cents) per Share, representing a total dividend payout ratio of 61% (2011: 50%).

## **Business Review**

### **Dual Sports and Entertainment Marketing Strategy Successfully Enhanced Xtep's Brand Value**

During the Year, the Group continued to adopt its dual sports and entertainment marketing strategy to promote brand awareness and reinforce Xtep as a leading fashion sportswear brand in the PRC. In order to increase international exposure of its brand, the Group strategically sponsored two major events at the London Olympic Games 2012, including the Chinese women's synchronized swimming team and its spokesperson – renowned U.S. sprinter, Justin Gatlin. During the Year, the Group sponsored nine international marathons in the PRC and Hong Kong with approximately 300,000 runners wearing Xtep's apparel. The Group also title sponsored "Xtep China University Football League" and "Xtep Chinese College Futsal League". In addition to sponsoring prominent sports events, the Group also appointed two new brand representatives, including 2012 world indoor sprint champion and London Olympic Games 2012 men's 100 meter bronze medalist, Justin Gatlin, and renowned Taiwanese actress, Gwei Lun-mei (桂綸鎂). With their participation in various promotional activities, the Group received positive national and international media exposure to boost its brand.

### **Innovative Products with Strong R&D Team**

Over the years, the Group is committed to offering a diversified product portfolio to cater to the diverse consumer needs. During the Year, the Group continued to strengthen its design and technology know-how. To tap into the lucrative young people market and the northern China market, the Group developed new footwear product lines, including the "Cool" footwear series ("潮酷鞋") for teenagers and cotton-padded shoes to cater for the long and cold winter in the Northern region. Apart from the two existing major categories of "Running" and "Trendy Lifestyle sport", the Group broadened its "X-TOP", "X-Girls" urban series and "Xtep Kids" series in order to capture the increasingly sophisticated domestic consumption market.

To improve production quality and efficiency, the Group was set to expand its production capacity and was established a production base in Anhui province. The new production base is expected to commence production in 2013 and that will achieve economies of scale and reduce production cost in the long run.

### **Effective Retail Chain Management to Tackle Inventory Issues**

Effective retail channel management and inventory control will be the Group's top priority as the overall sportswear industry experienced a slowdown in sales growth with excessive inventory and high retail discounts and massive store closure. Through the real-time monitoring DRP system in approximately 75% of the total number of its retail outlets, the Group was able to closely monitor the inventory level in the retail market and control the future supply of stock, as well as on retail discount rates in its distribution network. This will enable to minimize excess inventory and in return maintain a healthy inventory level. As at 31 December 2012, the Group's balance of inventory was RMB582.7 million, representing a decrease of approximately RMB88.8 million as compared to the last year (31 December 2011: RMB671.5 million) and also a decrease of approximately RMB118.2 million as compared to the balance of inventory as at 30 June 2012 of RMB700.9 million, indicating the improvement of inventory control.

In addition, to further consolidate its distribution network and optimize operational efficiency with an aim to maintain a healthy and sustainable development, the Group has closed some retail outlets at remote areas with underperformance. As of 31 December 2012, the total number of retail outlets is 7,510 (2011: 7,596), representing a net reduction of 1.1%.

## Future Prospects

Looking forward to 2013, the global economy remains uncertain under the impact of continuous market consolidation, Xtep will continue with its integrated marketing and promotional strategy to consolidate its leading fashion sportswear market position. To effectively manage the retail channel and consolidate the sales network will be the Group core task in 2013. The Group plans to further consolidate 100 to 200 retail outlets in areas where the stores' operations have underperformed. Moreover, the Group will also expand its coverage in the core market of third and fourth-tier cities in which urbanization policy has brought huge potentials.

In view of the changing market environment, the Group will proactively reduce the excessive inventory and moderate new stock supply. To support and to ease operational pressures of the distributor, the Group has increased wholesale discounts since 2013 first quarter. Through providing additional incentives on store renovation and decoration, maintaining a healthy and long-term sustainable development.

In January 2013, Xtep was honored to be officially named the sole apparel sponsor of the National Games (the "Games"), which is held once every four years. This marks the third consecutive time that Xtep has become the sponsor of the Games. The 12<sup>th</sup> National Games will be held in September 2013 in Liaoning, and Xtep is also the official sponsor of 12 delegation teams of the Games. This prominent sponsorship will put the Xtep brand in the national spotlight. To complement the sponsorship, the Group has made the northern cities a major focus of its development plans in order to capture opportunities in this region.

**Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep, said:** "Looking ahead, we believe that after the reshuffling of sportswear operators during the current market consolidation, the Chinese sportswear industry will gradually stabilize and recover. However as the overall economy and industry prospects remain challenging, effective retail channel management and inventory control will be our top priority in order to recap the success of our brand. We will make timely adjustments according to the changing market environment with prudent and cautious approach and business strategies."

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## **About Xtep International Holdings Limited**

Listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008, Xtep International Holdings Limited is a leading fashion sportswear brand in the PRC. The Group 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.

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Appendix

**2012 Annual Results Highlights**

<b>Financial Highlights (For the year ended 31 December)</b>			
	<b>2012 (RMB Million)</b>	<b>2011 (RMB Million)</b>	<b>Changes</b>
Revenue	5,550.3	5,539.6	+0.2%
Gross Profit	2,257.7	2,257.6	+0.0%
Profit attributable to equity shareholders	810.0	966.4	-16.2%
Gross profit margin	40.7%	40.8%	-0.1pt
Operating profit margin	20.4%	22.0%	-1.6pt
Effective tax rate	27.0%	20.3%	+6.7pt
Net profit margin	14.6%	17.4%	-2.8pt
Basic earnings per share (RMB cents)	37.2	44.4	-16.2%
Dividends	10.0	14.5	-4.5
- Final dividend per share (HK cents)			
- Interim dividend per share (HK cents)	13.2	13.0	-0.2
- Special dividend per share (HK cents)	4.5	--	+4.5
- Total basic dividend per share (HK cents)	27.7	27.5	+0.2
Return on average total equity holders' equity	19.8%	26.6%	-6.8pt
<i>Dividend payout ratio</i>	61%	50%	+11pt

<b>Operation Highlights (For the year ended 31 December)</b>			
	<b>2012</b>	<b>2011</b>	<b>Changes</b>
<b>Performance of Xtep brand</b>			
<b>Footwear</b>			
- Revenue (RMB million)	2,671.2	2,424.0	+10.2%
- Gross profit margin	41.5%	41.0%	+0.5pt
<b>Apparel</b>			
- Revenue (RMB million)	2,702.1	2,862.0	-5.6%
- Gross profit margin	40.5%	40.8%	-0.3pt
<b>Total number of Xtep outlets</b>			
	7,510	7,596	-86