



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

Xtep Announces 2014 Annual Results

Enhanced Product Mix Drives 10% Revenue Growth to RMB4,777.6 million

Final Dividend of HK 5.0 cents per Share; Special Dividend of HK 3.0 cents per Share

Dividend Payout Ratio Increases to approximately 60%

Results Highlights

- Revenue regained growth in FY2014, increased 10.0% to RMB4,777.6 million (2013: RMB4,343.1 million)
- Gross profit increased 11.4% to RMB1,946.9 million (2013: RMB1,747.6 million) and its overall gross profit margin increased by 0.6 percentage points to 40.8%
- Profit attributable to equity Shareholders was approximately RMB478.0 million (2013: RMB606.0 million), due to the increase of advertising and promotional expenses by RMB137.9 million to RMB623.7 million
- Basic earnings per Share was 21.95 cents
- Payout ratio increased to approximately 60%, with a final dividend of HK 5.0 cents per Share and a special dividend of HK 3.0 cents per Share
- Strong cash balance and improvements on working capital management in 2H2014 (Cashflow from operating activities: outflow of RMB376.7 million in 1H2014; inflow of RMB471.3 million in 2H2014)

12 March 2015, Hong Kong – Leading PRC-based fashion sportswear enterprise **Xtep International Holdings Limited** (the “Company,” together with its subsidiaries, the “Group”) (Stock code: 1368) today announced its audited annual results for the year ended 31 December 2014 (the “Year”).

The Group’s revenue has regained growth in 2014. Total revenue for the Year amounted to approximately RMB4,777.6 million (2013: RMB4,343.1 million), representing an increase of 10.0% compared to 2013. The improvement was mainly attributable to 1) the consolidation of the sportswear industry has driven out small and weaker players; 2) the Group’s successful branding and marketing strategies that focus on the domestic mass market sector and running events; 3) enhanced product portfolio resulting in strong growth of footwear products sales; 4) advanced management control on the retail channels; and 5) achievement in high single digit replenishment orders for new products.

Gross profit increased by 11.4% year-on-year to RMB1,946.9 million (2013: RMB1,747.6 million) with overall gross profit margin rising by 0.6 percentage points to 40.8% (2013: 40.2%), driven by an enhanced product mix of higher margin footwear products. In order to enhance brand equity and lay a solid foundation for future growth, advertising and promotional costs increased by RMB137.9 million to

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approximately RMB623.7 million (2013: RMB485.8 million). As a result, profit attributable to equity Shareholders decreased by RMB128.0 million to approximately RMB478.0 million (2013: RMB606.0 million).

To improve Shareholders' returns, the Board recommended a final dividend of HK 5.0 cents per Share (2013: HK 8.0 cents) and a special dividend of HK 3.0 cents per Share (2013: nil). Including the interim dividend of HK 8.5 cents per Share (2013: HK 10.0 cents), the total dividend for the Year amounted to HK 16.5 cents per Share (2013: HK 18.0 cents), representing an increase in the total dividend payout ratio to approximately 60.0% (2013: 51.3%).

The total net assets of the Group amounted to RMB4,710.3 million (31 December 2013: RMB4,507.6 million), representing an increase of 4.5%. The cashflow from operating activities in 2H2014 was significantly improved to a net cash inflow of approximately RMB471.3 million (1H2014: net cash outflow of approximately RMB376.7 million), mainly due to the decrease in inventory level in 2H2014.

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep, said, "As a result of the consolidation of the sportswear industry due to the exit of smaller and weaker players in the market, and our implementation of dual-marketing strategy, introduction of innovative products, advanced management control on the retail channels, the Group has regained revenue growth in 2014 and continued to maintain its leadership in the domestic fashion sportswear segment."

BUSINESS REVIEW

Proven Successful Branding Strategies

The success of the XTEP has been built upon its unique brand positioning and differentiated marketing strategy which integrates entertainment elements into sports to create the perception of the XTEP as trendy and functional among the general public, with its continued focus on the PRC mass market sector and the sport of running.

The sports marketing initiative of strengthening the tie between XTEP and marathons/ running events and hence sports enthusiasts in the mass market has proven successful. During the Year, the Group has sponsored a total of 13 internationally recognized marathons in the PRC and Hong Kong, accounting for almost one-third of the total of races hosted in the PRC and Hong Kong during the Year. The Group was also the title sponsor of the XTEP CCFL (特步中國大學生五人制足球聯賽), a 5-a-side league, and the XTEP CCFL (特步中國大學生足球聯賽), an 11-a-side league, which are the only two official campus leagues in China.

In addition to the Group's existing famous spokespersons Nicholas Tse (謝霆鋒), Han Geng (韓庚) and Justin Gatlin, it has enlisted Chen Ding (陳定), the first-ever Chinese gold medal winner of the 20 km racewalk event at the 2012 Olympics. Joining him are the five protagonists, "Day Day Brothers" (天天兄弟), in the popular Chinese entertainment TV program "Day Day Up", (天天向上).

The Group also strategically sponsored some highly popular TV programs during the Year, including "Chef Nic" (12道峰味), "Day Day Up" and became the strategic partner of CCTV-5 Sports channel and CCTV Kids Channel. It has also made use of the online platforms such as WeChat and Weibo for effective brand and marketing communication tools of XTEP. During the Year, the advertising and promotional expenses was approximately RMB623.7 million (2013: 485.8 million), accounted for 13.1%

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of the Group's revenue (2013: 11.2%).

Product Innovation Supported by Strong R&D Capabilities

During the Year, the Group strategically enhanced its product portfolio, coupled with its successful brand and marketing strategy, the revenue from footwear products increased significantly by 35.4% to RMB3,042.9 million, boosting the revenue contribution of XTEP footwear products to 63.7% (2013: 51.7%) and the segment's gross profit margin to 42.1% (2013: 40.9%). Drawing on the professionalism and creativity of its over 700 talented in-house R&D team members which are comprised of senior designers from Hong Kong, the U.S., Germany and South Korea, the Group has been able to annually develop approximately 3,000 SKU products. During the Year, the R&D expense was approximately RMB107.5 million (2013: RMB111.4 million), accounted for 2.2% of the Group's revenue (2013: 2.6%).

Effective Distribution Network

To further optimize the retail distribution network, the Group has increased the number of distributorships from 28 to 37 and optimized its retail channels to 7,110 Xtep stores, of which over 85% have been covered by its DRP System. To create a unified XTEP image, the Group has been implementing the "XTEP 7th generation" store image across its retail channels since late 2014.

With the increasing importance of online sales, the Group has been expanding its online operations. Apart from selling products from its official website, www.xtep.com.cn, it is also operating an official online flagship store on Tmall, and was among the site's top athletic shoe retailer as of 31 December 2014. The Group has also partnered with popular online shopping platforms such as JD, Taobao, Dangdang and Suning.

Effective Supply Chain Management

In order to support the Group's nationwide retail network in China, the management team has placed significant focus on enhancing supply chain management and, along with product innovation, production capacity, quality control and distribution, they are key elements in a well-developed business model. The DRP System helps the Group to improve its supply chain management by collecting market data for product design, production management and inventory control. During the Year, the Group posted in-house production ratios of footwear and apparel at 58% (2013: 64%) and 15% (2013: 28%) respectively at its major production facilities in Quanzhou and Anhui.

The vertically integrated business model also enabled the Group to have a faster and more cost-effective product development and supply chain processes than before. The Group has shortened the inventory turnover days by 8 days by improving both the supplier lead time and delivery schedule to its distributors and retailers.

PROSPECTS

China's retail sportswear market has shown signs of a recovery. The ongoing consolidation of the sportswear industry, continuing urbanization, rising disposable income and increasing popularity of sports in the country are all favourable factors to lead to significant market opportunities for sportswear brands that possess strong brand value, backed by a portfolio of distinctive and innovative products.

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Stepping into 2015, the Group has enlisted young and highly popular celebrities into the “XTEP Stars” family, including the South Korean singer, Im Jin-ah (林珍娜, aka “Nana”), a member of girl group After School, UNIQ, a popular Chinese-South Korean boy group, and Li Yifeng (李易峰), one of the brightest young actors in China, to continue to draw public association to the young and dynamic image of XTEP. Aside from the introduction of the new XTEP spokespersons, the Group will continue to sponsor programs that possess significant sports and entertainment content. To further increase the market share of Xtep Kids, the Group has employed an animated cartoon marketing strategy alongside the launch of the “Dream Corps” cartoon series across cities in China in March 2015. A wide range of products featuring the cartoon characters are in the pipeline.

The Group will continue to introduce the highest quality running footwear and apparel, and sponsor key events nationwide. It will increase its investment in R&D in order to incorporate the latest technologies and innovations into its running series, as well as to explore and develop new materials and products. New products incorporating advanced technologies to be offered in 2015 include the Dual Direction Shock Absorber 3.0 Running Shoe and the Group’s 2015 Q3 running shoes have incorporated the latest Dynamic Foam, X-Helix and Air Mega technologies.

To capture both online and offline sales, the Group expects the number of XTEP outlets to remain at approximately 7,100–7,200 and the number of Xtep Kids sales network to increase to approximately 600–800 POS in the country by the end of 2015. With regards to the e-commerce business, the Group will consequently introduce more exclusively online items and in-season products to satisfy the needs of its online customers. The Group is poised to maintain its one of the top athletic sports retailers’ position in China’s e-commerce realm in the coming year.

Mr. Ding concluded, “Benefiting from the Chinese Central Government’s support in the sports industry and industry consolidation, we have taken every measure to raise the Group’s competitiveness, including our unique dual-marketing strategy, product portfolio enhancement and distribution network and operational efficiency optimization. Riding on our stable business performance and robust financial position, together with our clear development blueprint in place, we are confident that we will be able to maintain our leading position in the fashion sportswear market in the PRC.”

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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 fashion sportswear enterprise. 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, Xtep has been actively implementing its sports marketing strategy with a focus on running and football. It boasts an extensive distribution network of more than 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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2014 Annual Results Highlights

Financial Highlights (For the Year Ended 31 December)			
	2014	2013	Change
Profitability Data (RMB million)			
Revenue	4,777.6	4,343.1	+10.0%
Gross Profit	1,946.9	1,747.6	+11.4%
Operating Profit	808.7	895.4	-9.7%
Profit Attributable to Equity Shareholders	478.0	606.0	-21.1%
Basic Earnings per Share (RMB cents)	21.95	27.84	-21.2%
Gross Profit Margin	40.8	40.2	+0.6pp
Operating Profit Margin	16.9	20.6	-3.7pp
Net Profit Margin	10.0	14.0	-4.0pp
Return on Average Total Equity Holders' Equity	10.4	13.8	-3.4pp

Operational Highlights (For the Year Ended 31 December)			
Group Revenue & Gross Profit Margin Breakdown By Product Category			
	2014	2013	Change
Footwear			
Revenue (RMB million)	3,042.9	2,246.9	+35.4%
Gross Profit Margin (%)	42.1%	40.9%	+1.2pp
Apparel			
Revenue (RMB million)	1,687.5	2,011.9	-16.1%
Gross Profit Margin (%)	38.5%	39.8%	-1.3pp
Accessories			
Revenue (RMB million)	47.2	84.3	-44.0%
Gross Profit Margin (%)	36.9%	34.0%	+2.9pp