



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

XTEP Announces 2017 Annual Results

Gross Profit Margin Expanded for the 5th Year in a Row to 43.9%
10th Year Listing Anniversary Special Dividend HK10.0 cents per share
Total Dividend Increased by 39.4% to HK23.0 cents per share
Annual Dividend Payout Ratio 103.8%
Successful Transformation Led to Retail Growth

Financial Highlights

- Revenue dropped slightly to RMB5,113.4 million mainly due to retail channel restructuring
- Gross profit margin continued to expand for the 5th year in a row, by 0.7pp to 43.9%, attributable to effective streamlining of business divisions, and increased contribution from e-commerce
- Net profit declined by 22.7% to RMB408.1 million, mainly due to one-time loss on buy-back of inventories amounted to RMB120.8 million
- Profit excluding loss on buy-back was RMB529.0 million, higher than 2016 (RMB 527.9 million)
- Strong net cash position, with RMB2,933.8 million of net cash and cash equivalents, which is equivalent to 55.1% of net assets
- Trade receivables turnover days were reduced to 130 days from 164 days as at 30 June 2017, trade receivables amount was reduced to RMB1,719.0 million from RMB2,224.4 million
- Proposed final dividend of HK 4.5 cents per share, and tenth year listing anniversary special dividend of HK 10.0 cents per share to thank shareholders for supporting the Group for the past 10 years.
- Total dividend increased by 39.4% to HK23.0 cents per share (2016:HK16.5 cents). Annual dividend payout ratio increased to 103.8% (2016: 60%)

Operational Highlights

- The Group is at the end of the three-year strategic transformation after gaining full control of the retail channel, and transforming XTEP exclusive distributors from wholesalers to partial retailers
- Retail sales showed positive performance, with SSSG averaging mid-single-digit for the year, exclusive distributor directly-owned stores sales efficiency increased over 10%, and newly renovated sportive stores sales up over 10% per square meter
- E-commerce continued to hold top sales volume position for running footwear and became top domestic casual sports footwear brand sales by volume on Tmall, and now accounts for over 20% of the Group's revenue
- Recognized as the "Chinese Runners' Favorite Brand" with XTEP topping domestic brand ranking in the top three marathons in China again, gaining market share as XTEP held 10.5% market share in Beijing Marathon, 9.1% in Guangzhou Marathon and 20.0% in Xiamen International Marathon¹
- Organized the second annual XTEP 321 Running Festival, which attracted over 20 million participants and tied XTEP brand ever-closer to running
- Combined multiple performance sports technologies into 3 new user-oriented running footwear series and 6 technical apparel platforms

15 March 2018, 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 2017 (the "Year").

¹ Source: Joyrun: Market share of footwear worn by runners, who finished the full marathon

XTEP is at the end of its three-year strategic transformation and has gained full control of the entire retail channel in 2017. The Group recognized that such rapid changes posed some temporary challenges to its financials, but the changes were necessary for a better future. The Group recorded a revenue of RMB5,113.4 million for the Year (2016: RMB5,396.6 million). The decline in revenue in 2H2017 narrowed to 2.1%, improved from 8.8% decrease in 1H2017. Gross profit margin continued to expand for the 5th year in a row, by 0.7 percentage point to 43.9% (2016: 43.2%), mainly driven by effective streamlining of business divisions and the increasing proportion of the e-commerce contribution to revenue. Profit attributable to shareholders amounted to RMB408.1 million (2016: RMB572.9 million). However, excluding the impact from the one time loss on buy-back of inventories of RMB120.8 million, the profit attributable to ordinary equity shareholders was approximately RMB529.0 million (2016: RMB527.9 million), representing an increase of approximately 0.2% over the same period last year. Basic earnings per share amounted to RMB18.81 cents (2016: RMB23.89 cents).

The Board recommends a final dividend of HK4.5 cents (2016: HK3.25 cents) per share, and a special dividend of HK10.0 cents per share to thank shareholders for their continued support over the past 10 years and to celebrate the 10th anniversary of the Group's listing in Hong Kong. Together with an interim dividend of HK8.5 cents (2016: HK10.5 cents) per share, total dividend increased by 39.4% to HK23.0 cents per share (2016: HK16.5 cents), equivalent to annual payout ratio of 103.8% (2016: 60%).

As at 31 December 2017, the Group's net cash and cash equivalents amounted to approximately RMB2,933.8 million (as at 31 December 2016: RMB2,743.7 million), equivalent to 55.1% of net assets.

Mr. Ding Shui Po, Chairman and Chief Executive Officer of XTEP International Holdings Limited, said, "2017 was the last stage of our 3-year strategic transformation from a fashion sportswear company to a professional sports brand that strives to be the "Chinese Runners' Favorite Brand". The benefits of the changes have been visibly reflected in increased retail sales efficiency. With strong control over the entire retail network, a well-recognized professional sports brand identity, and international standard products, we are confident that the successful transformation will yield positive results starting in 2018."

Business Review

Optimized Retail Channel to Boost Efficiency

The Group has gained full control of the retail channel, changing from managing a distribution channel to managing a retail network that consists of approximately 6,000 stores. The Group decides store location and layout, product ordering instructions, universal sales price, discount ranges based on detailed store tiering, and provides training for all retail store staff. Exclusive distributors have been transformed from wholesalers to partial retailers, their directly-managed stores are now over 60% of the total XTEP store count. These stores have seen over 10% sales efficiency improvement. During the channel flattening process, the Group has voluntarily extended the trade receivable credit period to exclusive distributors to help quicken the pace of transformation, as the transformation is nearing completion, the Group intends to retreat its trade receivable credit period to close to the 120 days level on contract. As at 31 December 2017, its trade receivables turnover days have been reduced to 130 days as compared to 164 days as at 30 June 2017.

The Group remodeled more than half of XTEP stores to international-style "6s" generation sports store design, in which the new sportive stores saw over 10% increase in retail sales per square meter. Moreover, a new big data team utilized full ERP system coverage over of the whole XTEP store network to monitor inventory level and sales performance in real-time. Retail inventory levels are at a very low 4 months level as compared to industry average of 4-6 months. Proactively, the analyzed big data helps the Group set precise discount ranges for each store, guide the store staffs on changing product displays in store, offer insights on how to improve customer service quality, formulate accurate product ordering instructions for exclusive distributors per store, and pinpoint consumer behaviors that lead to more popular future product development directions.

Mutual Benefit through True Omni-Channel Retail

While all of these positive changes in the Group's offline retail channels were taking place, the Group's online retail remained robust. XTEP maintained top sales volume position in running footwear products, as well as became the top casual sports shoes seller among domestic brands on Tmall.com in 2017. E-commerce has been integrated as part of XTEP's online marketing efforts, which streamlines costs and further unifies XTEP brand image. For the year ended 31 December 2017, e-commerce contributed to over 20% of the Group's revenue.

XTEP is one of the first and only sports brand companies that operates a truly integrated O2O (online-to-offline) platform in China. The Group shares its inventory for the O2O business with exclusive distributors and distributors send products ordered online to consumers nearby. With the Group's proven success in e-commerce, O2O is a win-win situation where XTEP products are aligned, branding and promotional efforts see exponential effect, inventory levels are better controlled and profit increased for both the Group and its exclusive distributors.

Chinese Runners' Favorite Brand

XTEP is a professional sports brand that enhances mass market consumers' ability to compete in world class marathons and provides the flexibility to look fashionable in everyday life. After transforming the brand into a professional sports brand since 2015, the Group has solidified XTEP as the "Chinese Runners' Favorite Brand". In 2017, XTEP continued to carry the title of the sportswear sponsor for the most number of marathons in China for the third consecutive year, with 29 major marathons in major cities such as Beijing, Tianjin, Chongqing, Xiamen and other 11 additional mass-participation running events sponsored, including 10 XTEP Penguin Runs in cooperation with Tencent and the XTEP 321 Running Festival. 40 running events total attracted 670,000 runners, and XTEP Penguin Runs had over 90 million invitees. The acceptance of our brand as a professional sports brand was demonstrated by XTEP topping domestic brand ranking in Joyrun research in the top three marathons in China again, as well as gaining market share by having 10.5% market share in Beijing Marathon, 9.1% in Guangzhou Marathon and 20.0% in Xiamen International Marathon¹.

The Group successfully organized the second annual XTEP 321 Running Festival as an annual national celebration of runners and hosted three XTEP Crazy Run in Beijing, Changsha and Xiamen, and a large gala in the evening to promote this one and only running festival for Chinese runners, which attracted over 20 million participants and further tied XTEP's brand closer to running. XTEP brand image on lifestyle sports products is highly relatable to fashionable street-wear. In 2017, the Group organized its first annual "XTEP Storming the Streets" (特步熱煉工場), a street sport event incorporating skateboarding, street basketball, and cage football competitions. The two-day event attracted over 1 million participants, and helped increase XTEP brand's street-fashion exposure among consumers and through online media. The growing popularity of these original IP sporting events takes XTEP beyond products to truly establishing itself as a sports brand platform.

The Group has signed additional entertainment celebrities, Zhao Liying and Lin Gengxin, they are both highly ranked in their ability to generate media and social media hot topics, and their popularity helps to promote XTEP products to those who are only starting to or considering to engage in a more active lifestyle.

Consumer Centered Products to Best Serve Chinese Runners

XTEP products have become increasingly technical in the running category, and products are structured around Chinese runners, combining different technologies, in comparison to sports brands traditionally focusing on singular technologies. Footwear technologies were combined into three core series of running shoes in 2017, which are RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑), to better serve advanced runners, intermediate runners and beginner runners respectively. For performance apparel, the Group consolidated the technologies into six core technology platforms, which are XTEP-DRY (酷乾科技), XTEP-COOL (釋冰科技), XTEP-WARM (熱能科技), XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER, to match different weather conditions and motion states runners encounter. For lifestyle sports products, XTEP has retailored its products from casual to international style fashion, and the categorization will change from aged based series of "campus" and "urban" to three categories of "urban", "street" and "active" based on style. Each of these new series target the different style demands of a wider age group of consumers.

To bring the Group's products to truly international level in both design and technology, the Group has built China's first dedicated running research laboratory, led by international scientists and employs global leading research technologies, to develop and optimize the functions and technologies of products. Moreover, 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. The Group has successfully created gold medal winning cleats for the fastest man in China, Xie Zhenye, as well as first-place winning marathon shoes for runners during multiple international level marathons in China.

Outlook

2017 marked the last year of XTEP's strategic transformation, where its professional sports brand image has been widely accepted by consumers, and positive effects such as increased retail sales efficiency has been readily visible. In the future, the Group will leverage its brand equity to build a sports brand and sports ecosystem that includes events and community. In 2018, besides broadening brand loyalty beyond products, the Group will have new proprietary technology launches in footwear based on research from its laboratory.

It will further enhance the "new retail team" (新零售運營中心) to explore the new practices of user-centered retail marketing in different areas by integrating smarter retail technology. In the next 1-2 years, the Group plans to open no more than 10 directly-owned XTEP experience centers to showcase its new professional sports image and to connect directly with consumers. These flagship experience centers will show consumers that XTEP is truly a brand with international standards, in terms of both technology and design, and also shopping experience.

As the Group has largely completed the three-year strategic transformation of its own XTEP brand, it will begin to seek brand portfolio expansion targeting the high-end market as well as other unique sports retail channels. The Group is confident about its prospects for 2018 as XTEP has become a stronger brand.

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About XTEP International Holdings Limited (Stock code: 1368)

XTEP International Holdings Limited (stock code: 1368) is a leading PRC-based professional sports brand with over 15 years of history, listed on 3 June 2008 on the Main Board of the Hong Kong Stock Exchange. XTEP is a leading PRC-based professional sports brand, principally engaged in the design, development, manufacturing, sales and marketing, and brand management of sports products, including footwear, apparel and accessories. It boasts an extensive distribution network of approximately 6,000 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. XTEP is a constituent of the 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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2017 Annual Results Highlights

Financial Highlights (For the Year ended 31 December)			
	2017	2016	Change
Profitability Data (RMB million)			
Revenue	5,113.4	5,396.6	-5.2%
Gross Profit	2,244.5	2,331.3	-3.7%
Operating Profit	724.5	917.0	-21.0%
Profit Attributable to Equity Shareholders	408.1	527.9	-22.7%
Basic Earnings per share (RMB cents)	18.81	23.89	-21.3%
Profitability Ratios (%)			
Gross Profit Margin	43.9	43.2	+0.7 p.p.
Operating Profit Margin	14.2	17.0	-2.8 p.p.
Net Profit Margin	8.0	9.8	-1.8 p.p.
Dividend Payment			
Annual dividend (HK Cents)	23.0	16.5	+39.4%
Annual Dividend Payout Ratio (%)	103.8	60	+ 43.8 p.p.
Cash / Cashflow (RMB million)			
Net Operating Cash Inflow	558.1	345.8	+61.4%
Net Cash and Cash Equivalents	2,933.8	2,743.7	+6.9%

Operational Highlights (For the Year ended 31 December)			
Group Revenue & Gross Profit Margin Breakdown By Product Category			
	2017	2016	Change
Footwear			
Revenue (RMB million)	3,257.8	3,525.4	-7.6%
Gross Profit Margin (%)	45.0	44.0	+1.0 p.p.
Apparel			
Revenue (RMB million)	1,759.5	1,764.8	-0.3%
Gross Profit Margin (%)	42.2	41.7	+0.5 p.p.
Accessories			
Revenue (RMB million)	96.2	106.4	-9.6%
Gross Profit Margin (%)	39.2	41.0	-1.8 p.p.