



Xtep International Holdings Limited

Incorporated in the Cayman Islands with Limited Liability (HKSE Stock Code: 1368)

Xtep Announces Encouraging 2019 Annual Results Revenue Increased by 28% year-on-year to RMB8,183 Million

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Soaring to New Heights with Multi-Brand Business Model

Financial Highlights

- The Group's revenue reached RMB8,183 million
- Core Xtep brand's revenue increased by 21% to RMB7,707 million (2018: RMB6,383 million), driven by its product enhancement and the strong momentum of sportswear market in Mainland China. Core Xtep brand's gross profit margin was recorded at 43.8% (2018: 44.3%)
- Operating profit of the Group increased by 18% to RMB1,234 million (2018: RMB1,044 million)
- Profit attributable to ordinary equity holders was up by 11% year-on-year to RMB728 million
- Balance sheet remained healthy, with net cash and cash equivalents of RMB2,132 million. Net cash inflow generated from operating activities on sustainable climbed to RMB778 million (2018: RMB154 million)
- Proposed final dividend of HK7.5 cents per Share (2018: HK9.5 cents), together with the interim dividend of HK12.5 cents per Share (2018: HK10.5 cents), full year dividend payout ratio was approximately 60.0% (2018: 60.0%)

Operational Highlights

- Retail sell-through of core Xtep brand registered over 20% year-on-year growth
- Satisfactory low-teens same store sales growth was recorded in 2019
- As at 31 December 2019, a total of 6,379 Xtep stores in Mainland China and overseas were in operation, representing 149 net openings
- 2019 marked another historic milestone for the Group as it kicked off its multi-brand strategy with four new brands including Palladium, K-Swiss, Saucony and Merrell to strategically target different markets, namely mass market, professional sports and athleisure

18 March 2020, Hong Kong – Leading PRC-based professional sportswear enterprise **Xtep International Holdings Limited** (the “Company”, together with its subsidiaries, the “Group”) (Stock code: 1368.HK) today announced its audited annual results for the year ended 31 December 2019 (“2019” or “the Year”).

The Group maintained robust growth momentum in 2019, driven by its multi-brand strategy, its product enhancement and the favorable sportswear market momentum in Mainland China. The Group's revenue recorded at RMB8,182.7 million (2018: RMB6,383.2 million), adding the extra five months' revenue from the acquisition and the revenue from the joint venture during the year. Core Xtep brand's revenue increased by 20.7% to RMB7,706.7 million (2018: RMB6,383.2 million) while gross profit margin of Xtep brand was 43.8% (2018: 44.3%). The Group's operating profit increased 18.2% to RMB1,234.0 million (2018: RMB1,044.3 million). Profit attributable to ordinary equity holders of the Company grew 10.8% to RMB727.7 million (2018: RMB656.5 million). Basic earnings per Share amounted to RMB30.7 cents (2018: RMB30.2 cents).

The Board has proposed a final dividend of HK7.5 cents per Share (2018: HK9.5 cents), together with the interim dividend of HK12.5 cents per Share (2018: HK10.5 cents), dividend payout ratio for the full year amounted to 60.0% (2018: 60.0%).

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, said, “The past year marked a milestone for Xtep as we transformed from a domestic brand to a global sportswear enterprise with four new brands including Palladium, K-Swiss, Saucony and Merrell to strategically target different markets, namely mass market, professional sports and athleisure. The core Xtep brand, our stable growth driver, continued to record healthy growth on the basis of our solid foundation built from the three-year strategic transformation. The establishment of the joint venture with Wolverine for Saucony and Merrell in March 2019 perfectly complements our product portfolio with professional sports product offerings. Furthermore, the acquisition of K-Swiss and Palladium in August 2019 enables us to tap into the athleisure wave. We are now better positioned than ever to step up our efforts and realize the potential of the five brands in our portfolio. We are dedicated to setting out and meticulously executing the strategies in order for Xtep to thrive in this booming sector and drive meaningful long-term returns.”

Business Review

Xtep

Products

Product innovation lies at the heart of Xtep’s leading position in running. The Group consistently improve its product design and technology to offer value-for-money professional sportswear products to all levels of athletes in the mass market. The latest model of professional running shoes, RC160X, was launched in December 2019 to help runners make breakthroughs in their top speed with its carbon fibre propulsive cushioning technology. Following the appointment of Jeremy Lin as Xtep’s spokesperson, the first design from the “Levitation 4” basketball shoes collection the Group co-created with Jeremy Lin was released in November 2019 and was positively received by the market. In September 2019, Xtep became the first Chinese sportswear brand to debut its collection at the London Fashion Week with its “City Runner” collection in collaboration with British designer brand House of Holland. In addition, Xtep launched various crossover collections in partnership with its celebrity spokespersons and famous third-party IPs such as Tom & Jerry, Batman, Smiley, Muhammad Ali and Transformers.

Branding and Marketing

Xtep remained as the sportswear sponsor of the highest number of marathons in Mainland China for the fifth consecutive year, with one marathon in Hanoi and 52 marathons and running events in Mainland China, attracting over 800,000 participants. Apart from running event sponsorships, Xtep has also engaged celebrity spokespersons to strengthen its professional sports brand image among the young generations. In August 2019, the Group engaged Jeremy Lin, a famous Asian basketball player, as Xtep’s brand spokesperson and unveiled a “Basketball Product Co-Creation Plan” to develop basketball and lifestyle products. The Group also sponsored various top-rated TV programs and reality shows in Mainland China to showcase its apparel and footwear to the younger generation.

E-commerce

During the second half of 2019, the Group kicked off a restructuring plan for its e-commerce business to integrate its supply chain operations with that of its offline business, thus improving the product design and quality. More offline products will also be available on the online platforms to fully extract the O2O synergies.

Palladium

In 2019, Palladium launched various signature and crossover products including a vintage unisex collection, “PALLADIUM Pallashock By KENZO” and a limited edition of the “PALLABROUSE Baggy Moon” collaborating with Bungie for their e-game DESTINY 2: Shadow Keep. Palladium also demonstrated its commitment to sustainability with its organic collection that features shoes made of organic cotton and recycled collection that features shoes made of recycled plastic bottles with waterproofing function. Lastly, Palladium collaborated with THERM-IC company to create the first ever heat-ready lifestyle boot, that can warm-up your feet for up to 13 hours and the temperature can be adjusted via a mobile app.

Saucony

The Group sees perfect synergies between Saucony and Xtep, in which Saucony can leverage Xtep's strength in supply chain, marathon and running events resources and extensive retail network; while Xtep can reach out to sophisticated customers in higher-tier cities through Saucony. Saucony will offer high-end signature styles with advanced technologies and exclusive localized designs according to the Chinese fits and tastes. More apparel items will be produced to meet the growing demand for sports apparel. Saucony's exposure was successfully increased by engaging influencers to promote its first localized design "Kinvara 11 - Xiamen edition" for the Xiamen International Marathon in January 2020, followed by a pop-up store at the China Marathon Expo in Xiamen.

K-Swiss

K-Swiss has been undergoing a two-year rebranding process to revamp the brand positioning, marketing, R&D, and product innovation. Upon completion, new products and brand image will first be launched in Mainland China before its global launch. K-Swiss will be positioned as a high-end fashion sportswear brand to capture the burgeoning athleisure trend. More apparel items will also be designed and produced to achieve a balanced product mix.

Merrell

Combining contemporary design, renowned comfort and proven performance, Merrell is committed to creating high-quality professional products for outdoor sports lovers and make outdoor activities enjoyable. In addition to tapping the long-term growth opportunity of the outdoor sports market in Mainland China, the Group will also grasp the business opportunity arising from the increasing number of Mainland Chinese travelling abroad in recent years.

Prospect

The Group remains cautious about the short-term prospect of the sportswear industry in view of the recent coronavirus outbreak in the country and the global trade tension before the next round of trade talks between the U.S. and Mainland China. The Group is proactively diverging its sales to its e-commerce platforms and executing various cost control measures to alleviate the impact of the outbreak. Nonetheless, the Group is confident in the long-term growth of the sportswear market in Mainland China supported by favorable government policies, increasing health awareness following the outbreak of the coronavirus and continuing popularity of fitness activities.

The core Xtep brand will continue to be the key business focus of the Group in 2020. Its new basketball products had a promising start with encouraging sales and feedback since its launch in 2019. The restructuring plan for its e-commerce business commenced in the second half of 2019 would allow the Group to further achieve long-term quality growth in the second half of 2020 and beyond. The Group will continue to spare no effort to sustain its organic growth and solidify its leading position in the market.

The Group is also dedicated to expanding Palladium's business in Asia-Pacific and increasing investment in apparel product lines to further raise its brand awareness and market share. Meanwhile, a pragmatic development plan for K-Swiss from branding, product mix and design, product to retail network is in the pipeline. Store relaunch with new marketing campaigns and products will take place by the end of 2021.

Saucony's first store opening is expected to be launched in the second half of 2020. However, the Group will cautiously expand Merrell's business given outdoor sports is still a niche market in Mainland China. Merrell's first store opening will be in the second half of 2020. High-end signature products as well as products customized to suit Chinese preferences will be available along with the openings of Saucony's and Merrell's standalone stores.

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About Xtep International Holdings Limited

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand "Xtep" is a leading professional sports brand with an extensive distribution network of over 6,300 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

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).



For further information, please contact:

Xtep International Holdings Limited
Investor Relations and Corporate Communications
Tel: (852) 2152 0333
Email: ir@xtep.com.hk

Strategic Financial Relations Limited
Maggie Au / Adrianna Lau / Emma Zhong
Tel: (852) 2864 4815 / (852) 2114 4987 / (852) 2864 4858
Email: sprg_xtep@sprg.com.hk

Appendix

2019 Annual Results Financial Highlights

| For the Year Ended 31 December | 2019 | 2018 | Change |
|--|---------------------------|---------------------------|-----------|
| Profitability Data (RMB million) | | | |
| Revenue | 8,182.7 | 6,383.2 | +28.2% |
| Gross Profit | 3,550.4 | 2,828.3 | +25.5% |
| Operating Profit | 1,234.0 | 1,044.3 | +18.2% |
| Profit Attributable to Ordinary Equity Holders | 727.7 | 656.5 | +10.8% |
| Basic Earnings per Share (RMB cents) | 30.7 | 30.2 | +1.7% |
| Profitability Ratios (%) | | | |
| Gross Profit Margin | 43.4 | 44.3 | -0.9 p.p. |
| Operating Profit Margin | 15.1 | 16.4 | -1.3 p.p. |
| Net Profit Margin | 8.9 | 10.3 | -1.4 p.p. |
| Dividend Payout Ratio | 60.0 | 60.0 | - |
| | | | |
| | As at 31 December 2019 | As at 31 December 2018 | Change |
| Net cash and cash equivalents | 2,131.6 | 2,437.6 | -12.6% |
| Gearing Ratio (%) (Note) | 19.1 | 21.1 | -2.0 p.p. |

Note: Gearing ratio is defined as the total borrowings divided by the Group's total assets

Group Revenue & Gross Profit Margin Breakdown

By product

| For the Year Ended 31 December | 2019 | 2018 | Change |
|--------------------------------|----------------|---------|-----------|
| Footwear | | | |
| Revenue (RMB million) | 4,653.1 | 3,925.0 | +18.6% |
| Gross Profit Margin (%) | 43.2 | 45.6 | -2.4 p.p. |
| Apparel | | | |
| Revenue (RMB million) | 3,344.4 | 2,326.9 | +43.7% |
| Gross Profit Margin (%) | 43.9 | 42.6 | +1.3 p.p. |
| Accessories | | | |
| Revenue (RMB million) | 185.2 | 131.3 | +41.1% |
| Gross Profit Margin (%) | 37.3 | 35.6 | +1.7 p.p. |

By brand nature

| For the Year Ended 31 December | 2019 | 2018 | Change |
|--------------------------------|----------------|---------|-----------|
| Mass market | | | |
| Revenue (RMB million) | 7,706.7 | 6,383.2 | +20.7% |
| Gross Profit Margin (%) | 43.8 | 44.3 | -0.5 p.p. |
| Athleisure | | | |
| Revenue (RMB million) | 465.9 | N/A | N/A |
| Gross Profit Margin (%) | 36.7 | N/A | N/A |
| Professional sports | | | |
| Revenue (RMB million) | 10.1 | N/A | N/A |
| Gross Profit Margin (%) | 43.2 | N/A | N/A |