



Xtep International Holdings Limited

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

Xtep Announces 2020 Annual Results Revenue Remains Stable at RMB8,172 Million Despite Macro Challenges

Highlights

- The Group's revenue remained stable at RMB8,171.9 million (2019: RMB8,182.7 million) despite COVID-19 pandemic
- Revenue of core Xtep brand decreased by 7.9% to RMB7,101.1 million (2019: RMB7,706.7 million)
- Operating profit of the Group declined by 25.6% to RMB918.2 million (2019: RMB 1,234.0 million)
- Profit attributable to ordinary equity holders ("Net profit") reached 513.0 million (2019: RMB727.7 million). Excluding the one-off gains from the disposal of a subsidiary last year and the disposal of Supra brand this year, the Group's net profit increased by 23.9% year on year in the second half of 2020, exhibiting a substantial improvement from a 46.5% year-on-year decline in the first half of 2020
- Balance sheet remained healthy, with net cash and cash equivalents of RMB2,251.4 million
- Proposed a final dividend of HK7.5 cents per Share (2019: HK7.5 cents per Share), with an option to receive scrip shares in lieu of cash. Together with an interim dividend of HK6.5 cents per Share, the full-year dividend payout ratio was approximately 60.0% (2019: 60.0%)
- As at 31 December 2020, there were 6,021 Xtep branded stores mainly operated by authorized distributors of the Group in Mainland China and overseas
- Accelerated store openings of Saucony and Merrell in the higher-tier cities in Mainland China. As at 31 December 2020, There were 32 and six self-operated stores for Saucony and Merrell, respectively

18 March 2021, 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 2020 ("2020" or "the Year").

2020 was a challenging year as the COVID-19 pandemic coupled with escalating geopolitical tensions caused disruptions to economic and trade activities across the globe. Despite the headwinds, the Group's revenue remained stable at RMB8,171.9 million (2019: RMB8,182.7 million). Revenue of the core Xtep brand decreased by 7.9% to RMB7,101.1 million (2019: RMB7,706.7 million). The gross profit margin of the Group was 39.1% (2019: 43.4%). Operating profit of the Group declined by 25.6% to RMB918.2 million (2019: RMB1,234.0 million). Profit attributable to ordinary equity holders ("Net profit") reached 513.0 million (2019: RMB727.7 million). Excluding the one-off gains from the disposal of a subsidiary last year and the disposal of Supra brand this year, the Group's net profit increased by 23.9% year on year in the second half of 2020, exhibiting a substantial improvement from a 46.5% year-on-year decline in the first half of 2020. Basic earnings per Share amounted to RMB20.8 cents (2019: RMB30.7 cents).

The Board has proposed a final dividend of HK7.5 cents per Share (2019: HK7.5 cents per Share), with an option to receive scrip shares in lieu of cash. Together with an interim dividend of HK6.5 cents per Share, the full year dividend payout ratio was approximately 60.0% (2019: 60.0%).

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, said, "The COVID-19 pandemic adversely impacted the Chinese economy in 2020. Nonetheless, China was the first country in the world to recover from it. We anticipate that the resumption of business activities and gradual recovery of consumer sentiment in Mainland China will continue to lead to positive economic growth in 2021, which will in turn be beneficial to the consumer sector. The core Xtep brand has witnessed a solid recovery in its retail sales since the second half of 2020, with the growth momentum sustained in the beginning of 2021. The continual increase in disposable income, rising health awareness of Chinese people in the aftermath of the pandemic, as well as the Chinese government's advocacy of internal circulation to

expand domestic demand and proposal to promote sports and health in their latest 14th Five-Year Plan in 2020 will further fuel the growth of the sportswear sector and the market share of domestic sportswear brands. Meanwhile, expansion plans for the four new brands in Mainland China also fit perfectly with the latest national policies, and they will become another major driver of growth in the future. We are well-prepared to grasp the enormous business opportunities through the comprehensive market segments in our portfolio.”

Business Review

Mass Market

Xtep

Products

Guided by our mission to provide consumers in the mass market with value-for-money professional and stylish sportswear products, we persisted in scaling up innovation and proactively collaborating with popular IPs. Since the launch of our signature running shoes 160X in December 2019, we have celebrated 26 championships in marathons and running events with eight sponsored athletes who wore the 160X shoes. Meanwhile, to deepen our roots in the basketball market, we launched Jeremy Lin’s signature basketball shoes “XTEP JLIN ONE” in October 2020 and successfully demonstrated Xtep’s capability to develop both professional and fashionable basketball products. Xtep also launched various crossover collections, such as the “Xtep x Shaolin (少林)” collection and “Xtep x Jiang Ziya: Legend of Deification (姜子牙：一戰封神)” collection, in partnership with its celebrity spokespersons and famous third-party IPs. These collaborations continuously generated trending topics on various social media platforms and marked another successful foray of Xtep into the China chic fashion.

Retail management and branding

In light of the COVID-19 pandemic, optimizing retail management as well as enhancing store productivity and customer experience became our key focuses. In November 2020, the first multi-brand collection store X-STREET was unveiled in Xiamen, which accommodates four major brands including Xtep, Palladium, Saucony and Merrell. Its grand opening attracted thousands of people to join together and impressive retail sales were recorded. In addition, a portion of the existing retail stores were revamped and upgraded to the ninth-generation retail store format in 2020 to deliver superior in-store experience to our customers and to drive store productivity.

Marathon and running event sponsorship

Although restrictions on outdoor recreation were in place in the first half of 2020 due to the COVID-19 pandemic, physical marathons and road races gradually resumed in the second half. During the year, Xtep sponsored 12 physical marathons and nine virtual races in Mainland China, which attracted over 1.5 million participants.

E-commerce

While lockdown measures were lifted gradually in the second half of 2020, consumers continued to increase their engagement in online shopping. The growth of our e-commerce business accelerated and it accounted for about a quarter of the Group’s revenue in 2020. During the year, we continued to leverage private traffic such as WeChat Mini Programs and live streaming to boost our exposure online. 151 live streams were produced together with 135 influencers on various online platforms. These initiatives significantly contributed to appreciable growth of our online sales. During the Double 11 Global Shopping Festival, the Group’s online sales soared by around 50% year on year to over RMB520 million, driven by a 40% year-on-year growth in sales from Xtep’s Tmall flagship store.

Professional Sports

Saucony and Merrell

The retail network of Saucony and Merrell was significantly expanded as we kick-started the store openings for both brands in Mainland China in May and April 2020, respectively. As at 31 December 2020, there were 32 and six self-operated stores for Saucony and Merrell in tier I and tier II cities in Mainland China, respectively. Meanwhile, with the dedicated online marketing efforts invested in Saucony and Merrell,

Saucony achieved a threefold year-on-year increase in online sales, while Merrell's online sales grew by 38% year on year during the Double 11 Global Shopping Festival 2020. Witnessing the initial success of the self-operated retail stores, we will open more Saucony and Merrell stores in higher-tier cities in 2021, so as to realize their potential as well as to capitalize on the growing popularity of urban outdoor activities.

Athleisure

K-Swiss and Palladium

The COVID-19 pandemic continued to impede the business operations of K-Swiss and Palladium in the Americas and Europe. It is expected that gradual recovery of the overseas business will require some time and patience. We will shift the business focus of K-Swiss and Palladium to Asia-Pacific. In the meantime, the strategic planning for K-Swiss's brand revamp was set out with precision and its progress did not stagnate amid the pandemic. Its first self-operated store in a higher-tier city in Mainland China is expected to debut by early 2022. As at 31 December 2020, there were 43 self-operated stores for K-Swiss in Asia-Pacific. Separately, we have successfully raised brand awareness of Palladium in Asia-Pacific by tapping into the burgeoning athleisure trend with new store openings. As at 31 December 2020, there were 54 and three self-operated stores for Palladium in Asia-Pacific and Europe, respectively, of which 21 stores were in Mainland China.

To mitigate the impact from the suspension of most of their operations in overseas markets since the first quarter in 2020, we employed extensive online marketing campaigns which encompassed social media marketing, email marketing and digital advertising for K-Swiss and Palladium. Our outstanding digital marketing capabilities in global markets successfully led to magnificent results. Online retail sales in the Americas and EMEA registered robust year-on-year growth of 45% and 52%, respectively.

Prospect

Despite the devastating impact of the COVID-19 pandemic, we believe that the consumer sector will benefit from the economic growth in Mainland China and the national policies that aim at boosting household incomes and consumptions in 2021. It is also expected that the increase in health awareness and participation in sports of the Chinese people will result in higher sportswear consumption post pandemic. As the core Xtep brand will continue to be our stable growth driver, we will continue to raise its brand awareness among the mass market and appeal to the younger generation. Concurrently, we will expand our investment in R&D and production innovation to upgrade our functional and sustainable products, as well as to strengthen store productivity through uplifting store image and offering exceptional customer experience.

The four brands in the professional and athleisure segments will serve as the Group's sustainable growth drivers. For Saucony and Merrell, we will continue to offer comprehensive lines of professional sports products by increasing the proportion of apparel items and localized products that target more sophisticated consumers. More store openings for the two brands are expected in 2021 to meet the stronger demand for professional and premium sportswear products in Mainland China. The recovery of the overseas business of K-Swiss and Palladium is expected to be a gradual process. As part of our strategy, we will progressively shift the business focus of the two brands to Asia Pacific, especially Mainland China, to tap into the enormous athleisure market. We will hasten the expansion of Palladium and expedite its store openings in Mainland China in 2021, while focusing on the brand makeover for K-Swiss and its store opening by early 2022.

Although the COVID-19 pandemic had a short-term impact on the Group, we remain optimistic about the long-term prospect of the sportswear sector in Mainland China. Our well-placed multi-brand portfolio has enhanced our capabilities to satisfy the demands of mass market consumers and more sophisticated consumers. Through strengthening our core competitiveness, accelerating growth and unlocking business efficiency, we are committed to bolstering our market share to take a favorable position in the intensified industry consolidation triggered by the pandemic.

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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 6,000 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).



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Appendix

2020 Annual Results Financial Highlights

For the Year Ended 31 December	2020	2019	Change
Profitability Data (RMB million)			
Revenue	8,171.9	8,182.7	-0.1%
Gross Profit	3,198.4	3,550.4	-9.9%
Operating Profit	918.2	1,234.0	-25.6%
Profit Attributable to Ordinary Equity Holders	513.0	727.7	-29.5%
Basic Earnings per Share (RMB cents)	20.8	30.7	-32.2%
Profitability Ratios (%)			
Gross Profit Margin	39.1	43.4	-4.3 p.p.
Operating Profit Margin	11.2	15.1	-3.9 p.p.
Net Profit Margin	6.3	8.9	-2.6 p.p.
Dividend Payout Ratio	60.0	60.0	-
	As at 31 December 2020	As at 31 December 2019	Change
Net cash and cash equivalents	2,251.4	2,131.6	+5.6%
Gearing Ratio (%) (Note)	17.2	19.1	-1.9 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	2020	2019	Change
Footwear			
Revenue (RMB million)	5,046.7	4,653.1	+8.5%
Gross Profit Margin (%)	39.6	43.2	-3.6 p.p.
Apparel			
Revenue (RMB million)	2,963.9	3,344.4	-11.4%
Gross Profit Margin (%)	38.7	43.9	-5.2 p.p.
Accessories			
Revenue (RMB million)	161.3	185.2	-12.9%
Gross Profit Margin (%)	32.9	37.3	-4.4 p.p.

By brand nature

For the Year Ended 31 December	2020	2019	Change
Mass Market			
Revenue (RMB million)	7,101.1	7,706.7	-7.9%
Gross Profit Margin (%)	38.9	43.8	-4.9 p.p.
Athleisure			
Revenue (RMB million)	999.1	465.9	+114.4%
Gross Profit Margin (%)	40.7	36.7	+4.0 p.p.
Professional Sports			
Revenue (RMB million)	71.7	10.1	+608.6%
Gross Profit Margin (%)	41.6	43.2	-1.6 p.p.