



Xtep Announces 2016 Interim Results
Net Profit Increased 10.6% YoY to RMB 380.1 million

Financial Highlights

- Footwear revenue increased 16.2% and footwear gross profit margins increased to 44.2% (1H 2015:43.5%) due to well acceptance of XTEP's professional running products
- E-commerce revenue increased approximately 100% and accounted for approx. 15% of overall revenue
- Apparel revenue reduction was affected by the unusual weather conditions in China this year, as well as a conscious adjustment of the Group's products to reduce sports lifestyle apparel products to reinforce the professional sportswear image. Apparel gross profit margin increased to 41.7% (1H 2015: 39.1%) from this effort due to increase the proportion of functional apparel
- Profit attributable to equity shareholders up by 10.6% YoY to RMB 380.1 million, net profit margin rose by 0.6 pp to reach 15.0%
- Significant improvement on operating cashflow turning positive to RMB353.3 million (1H 2015: cash outflow RMB6.4 million) as overall working capital days reduced by 28 days to 57 days (1H 2015: 85 days)
- Interim dividend per Share of HK10.5 cents, dividend payout ratio increased to 52.4% (1H 2015: 52.0%)

Operational Highlights

- XTEP brand continued to strengthen repositioning as a professional sports brand with functional and stylish products
- Branding: increased major marathon sponsorships to 12 (1H 2015: 5), continued to be sportswear sponsor of the most number of marathons in China
- Products: improved professional running series and introduced first generation football products
- Retail management: continued to flatten retail channels to improve retail inventory management. Leading to reduction of the Group's inventory turnover days to 55 days (1H 2015: 72 days) and the amount of the Group's inventory was reduced by 11% YoY

22 August 2016, 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 unaudited interim results for the six months ended 30 June 2016 ("1H 2016").

The Group continued to reposition XTEP as a professional sports brand with functional and stylish products, with the focus on running as a sport category. Our well accepted value-for-money professional running footwear gave rise to significant footwear revenue increase of 16%. However, due to unusual weather condition and to conscious decision to increase the proportion of functional apparel products, the Group reduced the proportion casual apparel products which lead to apparel products revenue decreasing by 12%. Hence, the total revenue of the Group increased by 6.0% to RMB 2,534.6 million as compared with the corresponding period last year (1H 2015: RMB 2,390.6 million). Because the Group adjusted the products mix toward higher margin professional sportswear, gross profit margin increased 1.5 percentage points in to 43.3% (1H 2015: 41.8%). Profit attributable to equity shareholders rose by 10.6% to RMB 380.1 million (1H 2015: RMB 343.5 million), with basic earnings per share amounting to RMB 17.25 cents (1H 2015: RMB 15.86 cents).

The Board recommends an interim dividend of HK10.5 cents (1H 2015: HK 10.0 cents) per Share, and continued to increase the payout ratio to 52.4% (1H 2015: 52.0%).

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, said, “While 2015 was the year of change for XTEP, 2016 will be the year of consolidating our internal resources towards the post-change direction of a professional sports brand with functional and stylish products. In 2016, we continue to make improvements in branding, product, and retail management, we have aligned our resources and the focuses of these business units to driving XTEP to be the runners’ brand of choice, and ensuring a higher profit to solidifying our advantage in running ahead of peers.”

Business Review

Focused Brand Promotion

With the transformation of XTEP in 2015 to a professional sports brand, the Group has re-oriented its branding resources devoting more focuses to sports marketing. Running remains to be the core sports category focus for the Group, Xtep has increased the number of major marathon sponsorships from only 5 in the first six months of 2015 to 12 in 1H 2016. The Group estimates the number of marathon and other running event sponsorships to increase to well over 40 this year. XTEP has also signed on additional sports spokesmen, such as Xie Zhenye, who represented China in the 2016 Olympics in the 4x100m relay and 100m dash.

In addition, the Group has launched its comprehensive football strategy- “Blade Project”, with the goal to serve 5 million Chinese youth football population in five years. The strategy includes the continuation in sponsorship of XTEP China College Futsal League for the 5th consecutive year and XTEP China University Football League for the 4th consecutive year, adding sponsorship of China High School Football League, serving over 20,000 participants each year. As well as launching of “Blade I” football product line and signing of Mr. Andriy Shevchenko, former European Footballer of the Year and current head coach of the Ukraine National Football Team, to be the spokesman for XTEP’s brand new football products launched in June 2016.

Innovative Products

The Group continues to upgrade product technology and designs. In terms of footwear products, XTEP upgraded its three core value-for-money running product series: “Dynamic Foam”(動力巢), “Reactive Coil”(減震旋) and “Air Mega”(氣能環), and added new features including Softpad™ (柔軟墊), “Xtep-Aroma” (芳香科技), “DOW” (仙護盾) and “X-Flex” (易彎折). As a result of the well acceptance of its functional products, the Group recorded revenue growth in footwear products of 16.2% to RMB 1,738.3 million (1H 2015: RMB 1,495.0 million) and gross profit margin increased to 44.2% (1H 2015 43.5%). As for apparel products, in addition to the main technologies of “Xtep Sports Elastic Technology” (X-S.E.T.特步運動彈性科技), “XTEP-FROZEN” (冰纖科技), “XTEP-DRY” (酷乾科技), the Group also included new feature Dupont™ Sorona® cotton from U.S.

In June 2016, the Group launched the new football product line - “Blade I”, the first XTEP professional football product series. The design tailors European football shoes to Chinese football players’ feet and Chinese football facilities, based on feedback from over 3,000 collegiate football players who have worn the products in competition over the past five years. The apparel retains the lightweight and quick-dry materials similar to running products, which we have gained expertise in over the years, making the clothing comfortable and durable for performance wear. The Group emphasizes on providing tested high quality products to consumers, putting it ahead of peers.

Retail Management Complemented by E-commerce Driving Revenue Growth

Effective distribution channel management has contributed to significant improvements in overall operational efficiency and profitability. The Group achieved remarkable results to lower its inventory and managed to maintain the amount of XTEP products in the retail channels at a healthy level. As at 30 June 2016, the Group’s inventory level has significantly reduced by 11.0% as compared to last year period end to approximately RMB463.1 million (30 June 2015: RMB520.2 million), and the inventory turnover days continued to reduce to 55 days (30 June 2015: 72 days).

To reduce multi-layered sales, the Group strategically increased the proportion of directly-managed retail stores by distributors and implemented a uniform 7th generation store design to reinforce XTEP’s new professional sports brand image. The total number of XTEP retail stores as at 30 June 2016 was approximately 6,800, and the total number of Xtep kids brand POS was approximately 600. The real-time DRP system now covers over 90% of XTEP retail stores and feeds into an APP which allows retail staff to monitor, analyze and quickly react to retail data in order to generate higher store efficiency.

The Group’s e-commerce business held the leading position in sports footwear/ sportswear categories on both of the leading e-commerce platforms in China, Tmall.com and JD.com, which combined has over 80% market share of the B2C online retail business. XTEP has launched O2O (“Online-to-Offline”) during the period, as allowing for inventory sharing with its distributors and acting as another retail platform for distributors. This increased the Group’s overall sales and created a win-win situation where both the Group and its distributors can enjoy higher profitability. E-commerce revenue for the period increased by approximately 100% and accounted for approximately 15% of the Group’s total revenue (2015: high single digit). We expect e-commerce will remain a key part of XTEP’s retail channel going forward.

Outlook

The Group will continue on the path of the “3+” strategy, which fuels its organic growth by “Products+,” “Sports+” and “Internet+.”

“Products+” indicates its continued effort to upgrade XTEP products in technical aspects and broaden its product categories. In the second half of the year, XTEP will launch its news XTEP “Comfycubes” (柔立方) series with Softpad™ technology for more comfortable and flexible walking, as well as smart running shoes “XTEP Motion” (特步全芯競速跑鞋) that comes with a six-axial motion detection smart chip and internal memory store. As for apparel products, it will introduce the heating technology “X-warm” (遠紅外升溫科技) in Q4 2016 and the 2nd generation of “Xtep-Dry” (酷乾科技) in 2017.

XTEP has a product development plan that takes the Group’s sustainable growth to second half of 2017 and beyond. The Group plans to have indoor training, outdoor, yoga and other product categories. Moreover, the Group will complete China’s first dedicated running research laboratory by end-2016 in order to develop the best fitting running shoes for Chinese runners.

The Group announced the cooperation with Mr. Nicholas Tse in July of 2016 to involve in the designing and promotion of his related product line. It believes this is type of cooperation between celebrities and XTEP strengthens brand recognition, broadens consumer base, and leads to additional revenue for the Group. XTEP expects to have newer generations and different product categories of the same product line going forward.

For “Sports+”, the Group envisions a running ecosystem beyond products and sponsorships. XTEP intends to continue XTEP 3.21 Running Festival (321 跑步節) as an annual celebration dedicated to runners that involves both offline and online channels to create a multifaceted impactful event to promote healthy and sporty lifestyle. Further, the XTEP Motion Tracker APP will create a seamless system where XTEP can interact with consumers and gather data to better provide products and services customized to their needs.

Regarding “Internet+”, the Group will employ digital technology to improve the sports ecosystem to generate higher revenue and earnings. In the second half of 2016, the Group will pilot the smart retail model in 50 stores which uses technology systems such as: automatic Traffic counter (客流計數器), e-payment, iBeacon (比肯), Foot scanner (足型掃描器) and 3D e-Fitting system (3D 智能試衣系統) to help retail stores to provide more precise services to consumers. More importantly, the technology systems record customer data for analysis by the retail management team, which leads to improvements in retail efficiency, product design, and targeted promotion.

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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 professional sports brand providing stylish and functional products. 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, the Group has been actively implementing its sports marketing strategy with a focus on running and football. It boasts an extensive nationwide distribution network in the PRC. The Company is a constituent of Hang Seng Global Composite Index and Hang Seng Composite Index Series.

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



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

2016 Interim Results Highlights

Financial Highlights (For the Six Months Ended 30 June)			
	2016	2015	Change
Profitability Data (RMB million)			
Revenue	2,534.6	2,390.6	+6.0%
Gross Profit	1,098.5	999.4	+9.9%
Operating Profit	583.4	500.6	+16.5%
Profit Attributable to Equity Shareholders	380.1	343.5	+10.6%
Basic Earnings per Share (RMB cents)	17.25	15.86	+8.8%
Profitability Ratios (%)			
Gross Profit Margin (%)	43.3	41.8	+1.5pp
Operating Profit Margin (%)	23.0	20.9	+2.1pp
Net Profit Margin (%)	15.0	14.4	+0.6pp
Dividend Payout (%)	52.4	52.0	+0.4pp
Return on Average Total Equity Holders' Equity	15.3	14.4	+0.9pp
Cashflow			
Operating Cashflow (RMB million)	353.3	-6.4	NA

Operational Highlights (For the Six Months Ended 30 June)			
Group Revenue & Gross Profit Margin Breakdown By Product Category			
	2016	2015	Change
Footwear			
Revenue (RMB million)	1,738.3	1,495.0	+16.2%
Gross Profit Margin (%)	44.2%	43.5%	+0.7pp
Apparel			
Revenue (RMB million)	736.3	844.2	-12.8%
Gross Profit Margin (%)	41.7%	39.1%	+2.6pp
Accessories			
Revenue (RMB million)	60.0	51.4	+16.7%
Gross Profit Margin (%)	38.9%	36.3%	+2.6pp