



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

Xtep Announces 2018 Interim Results

**Revenue Increased 18.1% to RMB2,729.0 Million with
Profit Attributable to Shareholders Surged 20.9% to RMB375.2 Million
Interim Dividend Increased 24% to HK10.5 cents, Payout Ratio Increased to 54.5%
Trade Receivables Dropped 51 days to 113 days
Beginning of a New Era After a Successful 3-year Strategic Transformation**

Financial Highlights

- Revenue increased 18.1% to RMB2,729.0 million after a successful three-year strategic transformation, with a stronger brand, international quality products and more efficient centralized retail network
- Operating profit margin increased 1 percentage point to 21.7%, operating profit increased by 23.6% to RMB592.0 million
- Net profit increased 20.9% to RMB375.2 million
- Strong net cash position, with RMB2,864.6 million of net cash and cash equivalents, equivalent to 51.9% of net assets
- Trade receivables turnover days further reduced to 113 days from 164 days as at 30 June 2017, 130 days as at 31 December 2017, trade receivables amount reduced to RMB1,650.3 million from RMB1,719.0 million as at 31 December 2017
- RMB22.8 million was written-back from trade receivable provisions made previously
- Proposed interim dividend increased 23.5% to HK10.5 cents (2017: HK8.5 cents), dividend payout ratio increased to 54.5%

Operational Highlights

- The Group has entered a new era of growth after a successful three-year strategic transformation
- Retail sales showed positive performance, with same store-sales growth at low-teens for 1Q2018 and mid-teens for 2Q2018, reaching double digit growth for the first time since the Group began reporting same store sales growth in 1Q2013. This also leads to improved profitability for exclusive distributors
- Successfully developed one of the most popular running shoes in China this year, which sold more than 1 million pairs since its launch in March 2018
- Continued to be recognized as the “Chinese Runners’ Favorite Brand”¹ with Xtep topping domestic brand ranking again in three of the top marathons in China
- True omni-channel retail integrating e-commerce: e-commerce contributed more than 20% of the Group’s revenue and Xtep brand once again was the top sales by volume in running footwear products on Tmall in the first half of 2018
- 6,035 stores nation-wide currently, target to reach 6,200-6,300 by end of 2018. New stores are larger in new sportive format

22 August 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 unaudited interim results for the six months ended 30 June 2018.

¹ Source: Joyrun: Xtep held top market share among all domestic peers in brand of footwear worn by participants who finished the full marathon within three hours. Xtep ranked 4th among all sports brand with in Chongqing Marathon in 2018, and Beijing Marathon and Guangzhou Marathon in 2017, with market shares 15.1%, 10.5% and 9.1% respectively

The Group has entered a new era of growth after having completed the three-year strategic transformation. The Group's revenue increased 18.1% to RMB2,729.0 million (2017: RMB2,310.8 million), with a stronger brand, international quality products and more efficient centralized retail network. Gross profit margin remained stable at 43.7% (2017: 43.9%). Profit attributable to ordinary equity holders increased 20.9% to RMB375.2 million (2017: RMB310.3 million). Basic earnings per Share were RMB17.26 cents (2017: RMB13.98 cents).

The Board continues to commit to paying a generous dividend to shareholders, and recommends an interim dividend of HK10.5 cents (2017: HK8.5 cents) per Share, an increase of 23.5%, which is equivalent to a payout ratio of 54.5% (2017: 52.4%).

As at 30 June 2018, the Group's net cash and cash equivalents remained plentiful at approximately RMB2,864.6 million (as at 31 December 2017: RMB2,933.8 million), equivalent to 51.9% of net assets.

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, said, "2018 is the beginning of a new era for Xtep. After a successful three year strategic transformation, we have begun to run full speed ahead. Xtep today is very different from Xtep before 2015. We have gone from a fashion sportswear company to now the Chinese runners' favorite local brand, we have developed one of the most popular running shoes in China this year, which sold more than 1 million pairs since its launch in March, and we have taken a hands-on approach in managing the entire Xtep retail network sales similar to a franchise model. All together, these lead us to achieving strong revenue growth, retail sales growth, operating profit, and net profit during the first half of 2018. Our retail sales in the first half of 2018 was over RMB6 billion, and we hold one of the top three market share positions among domestic sportswear brands in China. We expect to see accelerating organic growth for the Group in the next three years, including half-on-half for the second half of 2018."

Business Review

Centralized Retail Network Enhanced Profitability

After the completion of the strategic transformation, the Group has adopted a retail model similar to a franchise model. The Group decides store location and layout, universal tag price, sets strict guidelines on product ordering instructions, discount ranges based on detail store tiering, and provides training for all retail store staff, while exclusive distributors make most of the capital investments decision such as renovation costs, rents, store inventories and staff costs. Under this model, retail sales per square meter has increased, items sold per order rose, retail inventory level was maintained at a very low 4 months level (industry average is 4-6 months), and retail discount reduced to around 20% for the entire retail channel where in-season stores have close to no discounts. Exclusive distributor directly operated stores remained steady at an optimal level of around 60% of the 6,035 total store count, while store remodeling continued. As exclusive distributor profitability improved, the Group took away the voluntary support and our average trade receivable days reduced to 113 days as at 30 June 2018, from 164 days as at 30 June 2017 and 130 days as at 31 December 2017.

In addition, the Group has built a professional team of big data experts for real-time monitoring of sales progress, inventory level, discount level and sales efficiency through full ERP-system coverage over entire store network. The analyzed big data also helped the Group set precise discount ranges for each store, guide the store staff on changing product displays in store, 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. The ERP system also aided the Group achieving higher flexibility and precision in production and delivery, where products delivered to exclusive distributors within a quarter are split into three batches, and the products in the last batch is produced and delivered flexibly based on retail sales results of the first batch captured by the ERP system.

True Omni-Channel Retail through Integrating E-commerce

Xtep operates one of the few true omni-channel retail channels within the sportswear sector, where the online platform not only functions as a direct retail sales channel for the Group, but also a collective retail channel for the exclusive distributors. Thanks to the ability to quickly evolve with consumer trend and detailed direct management with ~400 staff dedicated team, Xtep once again captured top sales by volume in running foot wear products on Tmall in the first half of 2018 and continues to generate high sales growth. Apparel sales on Tmall doubled in the first half of 2018 compared to the same period of last year, the growth rate was much higher than that of peers.

Through the O2O system, offline products are listed on our e-commerce platform, and the Group is able to utilize inventories at exclusive distributors to fulfill orders by consumer. In the first half of 2018, the O2O system was rolled out to over 60% of our retail network. With the Group's proven success in e-commerce, O2O is a win-win situation where Xtep products are aligned, branding and promotional efforts saw exponential effect, inventory levels are better controlled and profit increases for both the Group and exclusive distributors. With rising sales contribution from O2O, the Group's online products become increasingly matching to its offline products. For the sixth months ended 30 June 2018, e-commerce contributed to more than 20% of the Group's revenue.

Continued to be "Chinese Runners' Favorite Brand"

The new Xtep brand is built around being the "Chinese runners' favorite brand", and the Group continued to carry the heritage of being one of the most fashionable of the sports brands and stayed at the fashion edge. Xtep continued to hold top market share among all domestic peer brands in what runners wear for major marathons¹. Xtep continued to be the official partner of Run China recognized by the Chinese Athletic Association, as well as, continued to sponsor the most number of marathons in China for fourth consecutive year with eight major marathons and a total of 14 running events in the first half of 2018, total participants in these events exceeded 280,000.

The Group has setup five Xtep Run Clubs (特步跑步俱樂部) club houses in major cities around China, adding one in Xiamen in the first half of 2018. These club houses have professional running gears, and provide targeted services such as marathon registration, training classes with KOLs, foot scanning, lockers, showers, tailor-made medal letting, etc. Our Xtep Runners' Club has now over 56,000 members across the country, and is the largest and most active running club around a brand in China. The aim is to create an ecosystem around Xtep brand for runners, with products, training, services, and social interactions catered to specific needs of runners.

The Group publicized Xtep's lifestyle products through young celebrities and hit internet TV shows. In 2018, Xtep has added the new hit boy-band NEX7 (樂華七子) who were part of the Idol Producer (偶像練習生) TV show to represent Xtep brand, each of the members have millions of followers on Weibo and have a highly commercially valuable fan-base especially among the post-90s and millennial generation. Xtep also cooperated with iQiyi and became the officially designated sports brand (官方指定運動品牌) of the second season of the hit internet TV show The Rap of China (中國新說唱). Celebrity and hit internet TV show raises Xtep's fashion perception among consumers under 40, and increases its brand exposure to a wider audience, which has exponentially positive effects on sales.

Product Innovation

Xtep's performance sports products revolve around running, and have become increasingly technical in functionality. The Group continues to develop new generations of the three core footwear technologies and six apparel technology platforms, based on research results from our own China's only dedicated running research laboratory. One of our self-developed running shoe models sold more than 1 million pairs since its launch in March 2018, the first time we have such hit product since the first generation "fire-shoe" in 2002. The Group will continue to work with international material suppliers and will launch new proprietary technologies in the second half of 2018.

Sports lifestyle products shifted from age based to three distinct series based on style, namely “Urban”, “Street”, and “Active”. Each of these series targets the different style demands of a wider age group of consumers, as Chinese consumers become more individualized on their sense of style. Sports lifestyle footwear mostly fell under the Xtep trademarked “π Series”, which bears a more subtle “π” logo instead of the traditional “X” logo of Xtep. We have and will increase cooperation with celebrities and third-party IPs under this trademark.

Outlook

2018 is the beginning of the new era for Xtep. Both the Group’s running and fashion products are expected to see accelerating growth over the next three years, including half-on-half in the second half of 2018, benefiting from a refreshed brand and redesigned products. The Group plans to open no more than 10 directly operated “Flagship Experience Stores” in 2018, in order to showcase its international standards in technology, design and shopping experience to consumers. E-commerce continued to grow strongly at a rate even faster than offline. In the long-run, the Group would like to see its retail channels in three approximately equal parts by revenue: online, shopping mall, and traditional street-side stores.

In addition to fast organic growth benefiting from the success of our three year transformation, the Group will be planning ahead for 2020 and beyond with a multi-brand strategy. In the next phase of development, the Group is looking to build a multi-brand portfolio that utilizes its deep knowledge of the Chinese sportswear market. Xtep will seek first to partner with international brands in the sportswear field that are complementary to the core Xtep brand, and grow their presence in Greater China. Xtep Group will leverage its over 20 years of experience in the Chinese sportswear market to take its entire portfolio of brands into the next phase of growth beyond 2020. As the market consolidates, the Group is confident to strengthen its leadership position amongst sportswear brands in China.

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About Xtep International Holdings Limited (Stock code: 1368)

Xtep International Holdings Limited (stock code: 1368) has been listed on the Main Board of the Hong Kong Stock Exchange since 3 June 2008. The Group has operated its own leading PRC-based professional sports brand Xtep since 2002, and principally engages 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 6,035 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).

For further information, please contact:

Xtep International Holdings Limited

Leah Liu Tel: (852) 2152 0813

Email: ir@Xtep.com.hk

Strategic Financial Relations Limited

Maggie Au Tel: (852) 2864 4815

Ka Wai Li Tel: (852) 2864 4855

Email: sprg_Xtep@sprg.com.hk

Jacky Chiu Tel: (852) 2114 4313



Appendix



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2018 Interim Results Highlights

Financial Highlights (For the Six Months Ended 30 June)			
	2018	2017	Change
Profitability Data (RMB million)			
Revenue	2,729.0	2,310.8	+18.1%
Gross Profit	1,193.1	1,015.6	+17.5%
Operating Profit	592.0	479.1	+23.6%
Profit Attributable to Shareholders	375.2	310.3	+20.9%
Basic Earnings per Share (RMB cents)	17.26	13.98	+23.5%
Profitability Ratios (%)			
Gross Profit Margin	43.7	43.9	-0.2 p.p.
Operating Profit Margin	21.7	20.7	+1.0 p.p.
Net Profit Margin	13.7	13.4	+0.3 p.p.
Dividend Payout Ratio	54.5	52.4	+2.1 p.p.
Cashflow (RMB million)			
Net cash and cash equivalents	2,864.6	2,565.3	+11.7%
Gearing Ratio (%)	21.0	19.1	+1.9 p.p.

Operational Highlights (For the Six Months Ended 30 June)			
Group Revenue & Gross Profit Margin Breakdown By Product Category			
	2018	2017	Change
Footwear			
Revenue (RMB million)	1,769.2	1,534.8	+15.3%
Gross Profit Margin (%)	44.8	44.3	+ 0.5 p.p.
Apparel			
Revenue (RMB million)	901.7	726.5	+24.1%
Gross Profit Margin (%)	42.0	43.5	-1.5 p.p.
Accessories			
Revenue (RMB million)	58.1	49.5	+17.4%
Gross Profit Margin (%)	37.0	39.3	-2.3 p.p.