



Xtep International Holdings Limited

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

**Xtep Announces 2022 Interim Results
Revenue Reaches an All-Time High of RMB5,684 Million
Net Profit Surges 38.4% to RMB590 Million**

Highlights

- The Group's revenue climbed 37.5% to record-breaking RMB5,683.6 million (1H2021: RMB4,134.9 million)
- Gross profit margin of the Group lifted to 42.0% (1H2021: 41.8%)
- Operating profit of the Group increased by 34.8% to RMB921.7 million (1H2021: RMB683.6 million)
- Profit attributable to ordinary equity holders of the Company rose by 38.4% to RMB590.4 million (1H2021: RMB426.5 million)
- Proposed interim dividend of HK13.0 cents per Share (1H2021: HK11.5 cents), representing a year-on-year increase of 13.0%, with an option to receive scrip shares in lieu of cash
- Revenue of the core Xtep brand surged 36.2% to RMB4,897.6 million (1H2021: RMB3,597.1 million). In particular, Xtep Kids' revenue swelled 83.7% and contributed approximately 15% of the core Xtep brand's revenue. As at 30 June 2022, there were 6,251 Xtep branded stores in Mainland China and overseas
- Revenue of the athleisure segment rose 36.3% to RMB629.5 million (1H2021: RMB461.9 million). There were 50 and 71 self-operated stores for K-Swiss and Palladium in Asia-Pacific including Mainland China, respectively, as at 30 June 2022
- Revenue of the professional segment surged 106.4% to RMB156.5 million. There were 46 and seven self-operated stores for Saucony and Merrell in Mainland China, respectively, as at 30 June 2022

23 August 2022, 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 unaudited interim results for the six months ended 30 June 2022 ("1H2022").

Xtep is pleased to present its outstanding financial performance despite China's continued battle against the COVID-19 outbreak. The Group achieved a new record high revenue of RMB5,683.6 million (1H2021: RMB4,134.9 million), up 37.5% year on year. Revenue of the core Xtep brand recorded a revenue of RMB4,897.6 million (1H2021: RMB3,597.1 million), a significant 36.2% increase, mainly driven by its solid running ecosystem, retail channel upgrade and increased brand awareness; as well as the encouraging performance of the Xtep Kids business. Gross profit margin of the Group lifted to 42.0% (1H2021: 41.8%). Operating profit of the Group increased by 34.8% to RMB921.7 million (1H2021: RMB683.6 million). Profit attributable to ordinary equity holders of the Company rose by 38.4% to RMB590.4 million (1H2021: RMB426.5 million). Basic earnings per Share was RMB23.5 cents (1H2021: RMB17.1 cents).

The Board has declared an interim dividend of HK13.0 cents per Share (1H2021: HK11.5 cents per Share), representing a year-on-year increase of 13.0%, with an option to receive scrip shares in lieu of cash, which is equivalent to a dividend payout ratio of 50.3% (1H2021: 60.0%).

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, said, "Notwithstanding the lingering impacts of COVID-19 in the second half of 2022, we remain optimistic about the medium- to long-term business outlook as the demand for sportswear products will continue to grow. Assisted by the proven resilience of our brands, targeted investments and greater efficiency, we are fully confident to accelerate growth and improve profitability of our business in the long term, hence accomplishing the revenue growth targets in the coming years as announced in the '5th Five-Year Plan'. In 2025, the target revenue of the core Xtep brand would be RMB20 billion, whereas the four new brands are projected to achieve a total revenue of RMB4 billion."

Business Review

Mass Market

Xtep

As one of the leading domestic sportswear brands in Mainland China, the core Xtep brand has built the largest running ecosystem in the community, including professional sportswear spanning across over 6,200 Xtep branded stores, 41 Xtep Running Clubs (“XRCs”) with around 1.5 million of Xtep Runners Club members, as well as top-class sports celebrities to raise its brand equity.

Products

Since the launch of our world-renowned running collection “160X” series in 2019, we have celebrated numerous championships and best records in marathons and running events with our sponsored athletes who wore the “160X” shoes. The “160X 3.0” rolled out in March 2022 continued to be regarded as one of the must-have shoes for expert runners. The shoe received the “Silver A’ Design Award Winner” for Sports, Entertainment and Recreation Equipment Design Category in the A’ Design Award 2022, and was awarded the “Gold Winner” in MUSE Design Awards 2022. Likewise, the “REACTIVE COIL” series has always been in high demand among runners. The “REACTIVE COIL 9.0” released in March 2022 became one of our best sellers in 1H2022. The collection was further enhanced with the launch of “REACTIVE COIL PRO” in May 2022 to offer excellent cushioning and rebound resilience. In addition, with dedicated efforts in the research on adolescent’s campus sports scenarios, Xtep unveiled new campus sports shoes under the “Xtep 100” series in March 2022 to empower adolescents to engage in school sports.

Xtep introduced the first NFT collection “160X-Metaverse” in March 2022, and became the first domestic sportswear brand in China to have created the metaverse experience for runners. Building on the successful launch of its first digital running shoes, the second NFT collection, “Guosu No. 1”, was unveiled in May 2022. The sales of the two digital running shoes were enthusiastic.

The more environmentally conscious younger generations have inspired us to launch greener products. We launched the first Polylactic acid fiber (“PLA”) products from 2020 and have advanced the application of biodegradable materials in our products ever since. We increased PLA content in our T-shirts from 19% to 60% in 2021; and further raised the PLA content in our T-shirts launched in the second quarter of 2022 to 76%. Meanwhile, the trial production of the 100% PLA windbreaker was also launched echoing the World Environment Day in 2022. In addition, “XTEP-XDNA” rolled out the Nirvana Temple and Robotic Monk series which adopt XTEP-ECO biodegradable materials made from plants, as well as Shaolin crossover denim series which employs ECOINDIGO® environmentally friendly materials.

Xtep Running Club and sports celebrities

To spice up public passion for sports and spread the power of running, 11 new XRCs were launched in 1H2022, providing runners with one-stop professional running services including running consultation, running group support, mobile charging and shower facilities. Running events organized by the XRCs on a regular basis and targeted selling of stellar running products have also allowed Xtep to increase community penetration and strengthen our running ecosystem.

In 1H2022, Xtep sponsored 25 professional athletes in multiple sports to maintain our leadership in the industry, including the top six male runners, namely Yang Shaohui, Renqing Dongzhibu and Dong Guojian, in the Marathon World Championships & Asian Games Trials held in Hangzhou in April 2022.

Xtep Kids

Young people’s enthusiasm for sports in Mainland China has reached new heights especially after the government’s shift towards listing physical strength and ability a higher priority. Supported by the successful restructuring from branding and products to retail network, the Xtep Kids’ business saw remarkable growth in recent years. In 1H2022, revenue of Xtep Kids swelled 83.7%, accounting for approximately 15% of the core Xtep brand’s revenue. As at 30 June 2022, there were around 1,480 POS (31 December 2021: 1,179 POS) in Mainland China for Xtep Kids.

Retail management and branding

The “ninth-generation stores” with larger store size and digital innovation, such as lighting control, AI robots, digital signage and rising stages, have drastically enhanced our brand image and allowed us to have an increase in foot traffic and cross-selling ratio. As at 30 June 2022, there were 6,251 Xtep branded stores mainly operated by authorized distributors in Mainland China and overseas.

Athleisure

K-Swiss and Palladium

The overseas business operations of K-Swiss and Palladium has shown an improvement due to gradual normalization of supply chain. In 1H2022, revenue from the athleisure segment increased by 36.3% to RMB629.5 million, contributing 11.1% of the Group’s revenue.

During the period, new pilot stores for K-Swiss were launched in Mainland China since January 2022 to test management practices, operational systems and consumer preferences on new products. Product mix and design were proactively adjusted so that we could fine-tune the product-market fit and connect with suitable customer segments. As at 30 June 2022, there were 50 self-operated stores for K-Swiss in Asia-Pacific including Mainland China.

In order to sustainably scale Palladium for the long haul, we persistently enhanced the product offering and optimized the retail network for the brand in 1H2022. As at 30 June 2022, there were 71 self-operated stores for Palladium in Asia-Pacific including Mainland China.

Professional Sports

Saucony and Merrell

Undaunted by the tightened restrictive measures put in place mainly in higher-tier cities in Mainland China against the spread of COVID-19, revenue of the professional sports segment soared 106.4% to RMB156.5 million, contributing 2.7% of the Group’s revenue in 1H2022.

In light of the temporary store closures due to the lockdown measures enforced in higher-tier cities, we devoted more effort to driving e-commerce expansion and minimizing such impacts. During the 618 Shopping Festival, Saucony’s online sales rocketed 135% year on year, demonstrating a resilient growth. Since Saucony bears a striking resemblance to the core Xtep brand in which they both possess strong brand identity in running, we swiftly expanded Saucony’s exposure in other cities in Mainland China through the Xtep Running Clubs and successfully increased its brand awareness. In the second half of 2022, more Saucony and Merrell stores will be launched in higher-tier cities in Mainland China to sustain their future growth plan. As at 30 June 2022, there were 46 and seven self-operated stores for Saucony and Merrell in Mainland China, respectively.

Prospects

The pledge by the Chinese government to promote the sports industry with increasingly sophisticated facilities and guidelines to call for sports participation is expected to raise the domestic demand for sportswear. Meanwhile, the COVID-19 pandemic has been a boom time for running and its widespread popularity especially in recent years has resulted in an enormous growth potential for professional running products. Economic uncertainty during the COVID-19 pandemic has also prompted a shift in consumer spending to quality domestic products. Xtep remains optimistic that the national policy support along with favorable market trends will continue to fuel the expansion of the Group’s business and lead the core Xtep brand to its growth trajectory.

The remarkable success in the first year of the “5th Five-Year Plan” in 2021 boosted our confidence in accomplishing the revenue target for the core Xtep brand in 2022 and beyond. Riding on the encouraging performance in 1H2022, we will continue to broaden our “moat” through the outspread running ecosystem to set us apart from other industry players. The successful restructuring for the kids business in brand upgrade and product enhancement built a firm foundation for sustainable business development, it is expected that

Xtep Kids will continue to achieve a higher growth rate in the years ahead. More store openings in new store format with elevated customer experience for both Xtep Adults and Xtep Kids to drive better store productivity and cross-selling opportunities will be launched in the coming years.

The growth momentum of the professional sports segment has exceeded expectation. Newfound optimism is slowly creeping back into the segment as we saw accumulated demand for professional sportswear. We will continue to strengthen the brand recognition of Saucony and Merrell through offering products with world-class designs and cutting-edge technologies to consumers who demand high functionality and performance. Leveraging its strong e-commerce operations, resources of the core Xtep brand and accelerated new store openings in high-tier cities in Mainland China in the near future, Saucony is expected to stay on a higher growth trajectory even amid the pandemic.

Given the mix of impacts from COVID-19 pandemic, geopolitical risks and slowing economic growth in the global market, we remain cautious about the business outlook of the athleisure segment in the short term. In Mainland China, operations of K-Swiss is still in the trial stage and we will continue to modify its product mix and design based on consumer preferences and feedback to fully unleash its DNA. For Palladium, optimization of its retail network and e-commerce business will continue to be carried out to maximize O2O synergies.

Although the sudden resurgence of COVID-19 overcasted the consumer momentum in Mainland China in 1H2022, we remain optimistic about the long-term prospects of the sportswear industry. While the core Xtep brand will continue to be the stable growth driver, the four new brands will inject new impetus into the Group, thereby steering us toward sustainable growth as planned in the "5th Five-Year Plan" and creating higher returns for the shareholders.

- End -

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 6,200 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 Index, Hang Seng Composite Index Series, Shanghai-Hong Kong 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.



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Appendix

2022 Interim Results Financial Highlights

For the Six Months Ended 30 June	1H2022	1H2021	YoY Change
Profitability Data (RMB million)			
Revenue	5,683.6	4,134.9	+37.5%
Gross Profit	2,386.8	1,729.4	+38.0%
Operating Profit	921.7	683.6	+34.8%
Profit Attributable to Ordinary Equity Holders	590.4	426.5	+38.4%
Basic Earnings per Share (RMB cents)	23.5	17.1	+37.3%
Profitability Ratios			
Gross Profit Margin	42.0%	41.8%	+0.2% pt
Operating Profit Margin	16.2%	16.5%	-0.3% pt
Net Profit Margin	10.4%	10.3%	+0.1% pt

Group Revenue & Gross Profit Margin Breakdown

By product

For the Six Months Ended 30 June	1H2022	1H2021	YoY Change
Footwear			
Revenue (RMB million)	3,379.8	2,604.1	+29.8%
Gross Profit Margin	41.8%	42.7%	-0.9% pt
Apparel			
Revenue (RMB million)	2,186.5	1,451.6	+50.6%
Gross Profit Margin	42.8%	40.8%	+2.0% pts
Accessories			
Revenue (RMB million)	117.3	79.2	+48.2%
Gross Profit Margin	33.2%	33.3%	-0.1% pt

By brand nature

For the Six Months Ended 30 June	1H2022	1H2021	YoY Change
Mass Market			
Revenue (RMB million)	4,897.6	3,597.1	+36.2%
Gross Profit Margin	42.2%	41.5%	+0.7% pt
Athleisure			
Revenue (RMB million)	629.5	461.9	+36.3%
Gross Profit Margin	39.8%	43.5%	-3.7% pts
Professional Sports			
Revenue (RMB million)	156.5	75.9	+106.4%
Gross Profit Margin	44.2%	45.4%	-1.2% pts