



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

**Xtep Announces 2017 Interim Results**  
**Gross Profit Margin Increased 5<sup>th</sup> Year in a Row to 43.9%**  
**Dividend Payout Ratio Maintained at 52.4%**

**Financial Highlights**

- The Group's revenue dropped slightly to RMB2,310.8 million due to restructuring of the XTEP Kids division
- Gross profit margin continued to expand for the 5<sup>th</sup> year in a row, by 0.6 p.p. to 43.9%, attributable to the shift of product mix towards higher margin professional sportswear products and increased contribution from e-commerce
- Apparel gross profit margin increased significantly by 1.8 p.p. to 43.5%, while footwear and accessories gross profit margin expanded to 44.3% and 39.3% respectively
- Net profit declined by 18.4% to RMB310.3 million, mainly due to normalization of advertising and promotional cost for 1H2017 to 12.2% of revenue
- Strong net cash position, with RMB2,565.3 million of net cash and cash equivalents, which is equivalent to 48.6% of net assets
- Proposed interim dividend of HK8.5 cents, dividend payout ratio maintained at 52.4%

**Operational Highlights**

- Continues to restructure towards a professional sports brand with stylish and functional products
- Branding: Continued to carry the title of the sportswear sponsor for the most number of marathons in China, sponsored 13 major marathons and running events in 1H2017
- Organized the second annual XTEP 321 Running Festival, reaching over 20 million audiences and more than doubling e-commerce revenue YoY
- Products: Restructured to center around the consumer, combined multiple technologies into 3 new running footwear series and 6 sports apparel platforms
- Retail management: Stringent retail channel management control led to excellent inventory management and better retail discount level
- E-commerce transformed into a new "branding + retail" model with increased brand communication and event marketing, it continued to be a key growth driver for the Group, contributing around 20% of the Group's revenue and remained the top sports footwear products seller on Tmall.com and JD.com by volume

23 August 2017, 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 2017 ("1H2017").

XTEP's restructuring towards being a professional sports brand with stylish and functional products enters the final phase in 2017. Due to restructuring of the XTEP Kids division, and coming off of the higher base of the first half of 2016 ("1H2016"), the Group recorded a revenue of RMB2,310.8 million (1H2016: RMB2,534.6 million) in 1H2017. Gross profit margin continued to expand for the 5<sup>th</sup> year in a row, by 0.6 p.p. to 43.9% (1H2016: 43.3%). Merits of the product mix shift towards higher margin professional sportswear products and the increasing proportion of e-commerce contribution to revenue has become evident through gross profit margin increases in all three product segments of footwear, apparel and accessories, especially apparel gross profit margin increased by 1.8 p.p. Profit attributable to Shareholders amounted to RMB310.3 million in 1H2017 (1H2016: RMB380.1 million), the decrease was mainly due to normalization of advertising and promotional cost for the period to 12.2% (1H2016: 9.3%) of revenue, comparable to historical levels of 11 to 13%. Basic earnings per Share were RMB13.98 cents (1H2016: RMB17.25 cents).

The Board continues to commit to paying a generous dividend to shareholders, and recommends an interim dividend of HK8.5 cents (1H2016: HK10.5 cents) per Share, which is equivalent to a payout ratio of 52.4% (1H2016: 52.4%).

As at 30 June 2017, the Group's net cash and cash equivalents remained plentiful at approximately RMB2,565.3 million (as at 31 December 2016: RMB2,743.7 million), equivalent to 48.6% of net assets.

**Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited**, said, "We have succeeded in solidifying 'XTEP' as the 'China's Runner's Choice' brand. We will continue to build on our new professional sports brand image, offer consumers increasingly technical products, and sell them through an omni-channel retail platform. We believe this will enable the Group to achieve sustainable growth in the future."

## **Business Review**

### ***Focused Branding Resources on Sports Marketing***

Running remains the core strategic focus sports category of XTEP. In the first half of 2017, XTEP continued to be the sportswear sponsor of the most marathons in China, sponsoring of 13 marathons and running events, including three XTEP Penguin Runs (特步企鵝跑) in cooperation with Tencent and the XTEP 321 Running Festival with a total of more than 280,000 participants, and it continued to have well-known Chinese track and field athletes to represent its professional sports products, such as Chinese 200m run record holder Xie Zhenye, and Chinese track and field Olympic gold medal winners Wang Zhen and Chen Ding. The Group successfully organized the second annual XTEP 321 Running Festival, as the one and only nation-wide running festival dedicated for Chinese runners. Three XTEP Crazy Runs were held respectively in Beijing, Changsha and Xiamen, and a large gala was broadcasted in the evening live on Southeast Television (東南衛視) and through major online live-streaming platforms, reaching over 20 million people in all. This festival best embodies the Group's goal of creating a running ecosystem showing both its professional sports image and its fashionable style.

XTEP continued to be the official partner of China Marathon (中國馬拉松官方合作夥伴) recognized by the China Athletic Association (中國田徑協會). It won the 2016 Contribution Award for Development of Marathon in China (2016年中國馬拉松發展貢獻獎) and Contribution Award at Marathon Gala-China 2016 (2016年中國馬拉松年會貢獻獎) in March 2017. Recognizing its decade-long effort in promoting running in China, XTEP won the 2016 Most Popular Running Shoe Brand in China (2016年度最受歡迎中國路跑跑鞋品牌) at the 2016 Sina Running Ceremony (2016年度新浪跑步盛典) in May 2017.

Football continues to be an integral part of the Group's branding strategy to foster consumer embrace of XTEP's professional sports image. The Group continued to sponsor national student football leagues in China, the XTEP China College Futsal League for the 6<sup>th</sup> consecutive year since 2011, the XTEP China University Football League for the 5<sup>th</sup> consecutive year and the China High School Football League, as well as several elementary school teams. XTEP will provide competition products to close to 17,000 participants each year.

### ***Product Re-Tailored to Address Runners' Needs***

The Group has changed the design of and marketing approach for its running products, from focusing on single technology series to combining different technologies to best fit the needs of Chinese runners of different experience levels. In the first half 2017, the Group introduced three core series of running shoes, namely RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑), to better serve marathon runners, routine runners and entry-level runners, respectively. As for running apparel, the Group consolidated its technologies into six core technology platforms, which are XTEP-DRY (酷乾科技), XTEP-COOL (釋冰科技), XTEP-WARM (熱能科技), XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER, to match different weather conditions and motion states runners encounter.

XTEP's highly functional and fashionable sports product are designed by a team led by international design talent, with extensive working experience in top international sports brands. To further improve the functionality and comfort of products, the Group cooperated with leading international fiber material developers, such as Dow Chemical Company, 3M and INVISTA in the United States, and Toray in Japan, to co-develop fiber technology for XTEP's exclusive use, for example, "Softpad™" co-developed by the Group with Dow Chemical Company.

In addition to running, the Group launched products in multiple sports categories starting in the second half of 2016, including indoor fitness series, female fitness series, outdoor series and football series. The Group also cooperated with Hasbro to launch XTEP Blade II x TRANSFORMERS co-branded limited edition football shoe and Transformers sports lifestyle series products in June 2017, as well as launched namesake shoes with its new celebrity spokesperson Zhao Liying. New product categories and cooperation with spokespersons and popular culture will provide additional fuel to future organic growth.

### ***Increased Retail Efficiency & Profitability***

XTEP views its retail network as an integrated omni-channel network, capable of capturing sales offline, online and mobile, domestic and overseas. Flattening of the distribution channel and detailed management down to store level have contributed to significant improvements in overall operational efficiency and profitability. As at 30 June 2017, the Group's inventory turnover days remained low at 67 days (2016: 55 days), with increases in raw materials in preparation for future growth and decreases in finished good. The amount of XTEP products available in retail channels was maintained at a healthy 4 to 5 months level, and retail discounts narrowed.

The Group carries out detailed weekly monitoring on the operational efficiency of all XTEP retail stores through the Group's DRP-system. The system covered over 95% of XTEP retail stores as at 30 June 2017. The Group opened more flagship stores in the first half of 2017 to give consumers enhanced shopping experience. As at 30 June 2017, the total number of XTEP retail stores was approximately 6,500 (31 December 2016: 6,800). The Group continued to execute the universal retail store image upgrade to the "6S<sup>th</sup> generation". Upgrading of store image has helped increase sales per store.

### ***Omni-Channel Retail***

XTEP was the first among sportswear companies in China to start using the O2O (Online-to-Offline) model with distributors. In 2017, e-commerce business transformed into a new "branding + retail" model ("品牌+零售"新模式) with the increased function of brand communication and event marketing. The integration of platform resources has helped multiply the impact of offline branding efforts to increase sales overall for the Group.

XTEP has captured top sales volume positions in the sports footwear product category on both Tmall.com and JD.com, and continues to generate high sales growth. By 30 June 2017, the O2O model has been rolled out to around 2,000 stores, achieving its goal of 2,000 to 3,000 stores six months earlier.

### **Outlook**

Continuing on the "3+" strategy set-out by the Group in 2015, "Product+", "Sports+", and "Internet+" will still be three themes carrying future growth. With respect to "Product +", the Group will boost its R&D efforts through its dedicated running research lab, with the aim of providing the best running products to the Chinese runner specifically. It will continue to expand its three core running footwear series and six core technology platforms of running apparel. XTEP will expand its product categories beyond running to other sports with promising growth potential. A new professional skateboard series will be launched in the first quarter of 2018, complementing the debut of skateboarding in the 2020 Olympic Games. This series can be worn both in competition and leisure, perfectly fitting XTEP's both professional sports and fashionable image. The Group plans to launch additional products that feature XTEP celebrity spokespersons and popular culture. The Group believes this type of cooperation can strengthen its brand recognition, help broaden consumer base and in turn increase revenue of the Group.

Regarding "Sports+", the Group continues to work towards its vision of being a part of, and operating, a running ecosystem beyond products and sponsorships. XTEP envision a comprehensive suite of running related services that starts with products, goes to events and activities, to the community. XTEP 321 Running Festival is the best embodiment of the Group's intent to create that ecosystem. Furthermore, the Beijing Olympic Forest Park XTEP Running Track, XTEP flagship stores together with the XTEP Run Club serve as symbolic gathering points for runners nationwide, where they can receive professional advice on running wear and techniques, and learn about local running events and activities. The Group will continue to sponsor major marathons and running events to further enhance XTEP's association with running in China.

For “Internet+”, the Group will harness the power of the Internet, mobile Internet and other digital technologies for big data gathering, O2O community building, to achieve seamless multi-channel precise marketing. The Group will establish a “new-retail” operation team (新零售運營中心) before end of 2017 to explore the new practices of user-centered retail marketing in different areas such as branding, e-commerce, omni-channel, community marketing, and runners’ club and etc. The Group plans to open a set of directly owned and operated XTEP flagship stores in the coming years to showcase our new professional sports image and to connect directly with consumers. In flagship stores, the Group will continue to roll-out smart retailing and e-payments, automatic traffic counter (客流計數器), foot scanner (足型掃描器) and other new technologies to offer consumers more customized service and help the Group gain more insights into consumer behavior. The Group will continue to roll out the O2O model, benefiting from the nimbleness of e-commerce, supported by rapid replenishment and fast delivery, leading to profit increase for both the Group and its distributors.

The Group continues to undergo its restructuring process in 2017 and has already seen higher sales efficiency per store and stronger inventory control across the retail network. XTEP is dedicated to generating long-term value for shareholders and striving to be China’s “runners’ brand of choice”.

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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 distribution network of approximately 6,500 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. Xtep is a constituent of 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](http://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



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2017 Interim Results Highlights

<b>Financial Highlights (For the Six Months Ended 30 June)</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>
<b>Profitability Data (RMB million)</b>			
Revenue	<b>2,310.8</b>	2,534.6	-8.8%
Gross Profit	<b>1,015.6</b>	1,098.5	-7.5%
Operating Profit	<b>479.1</b>	583.4	-17.9%
Profit Attributable to Equity Shareholders	<b>310.3</b>	380.1	-18.4%
Basic Earnings per Share (RMB cents)	<b>13.98</b>	17.25	-19.0%
<b>Profitability Ratios (%)</b>			
Gross Profit Margin	<b>43.9</b>	43.3	+0.6 p.p.
Operating Profit Margin	<b>20.7</b>	23.0	-2.3 p.p.
Net Profit Margin	<b>13.4</b>	15.0	-1.6 p.p.
Dividend Payout	<b>52.4</b>	52.4	Maintained
<b>Cashflow (RMB million)</b>			
Net cash and cash equivalents	<b>2,565.3</b>	2,886.4	-11.1%
Gearing Ratio (%)	<b>19.1</b>	18.9	+0.2 p.p.

<b>Operational Highlights (For the Six Months Ended 30 June)</b>			
<b>Group Revenue &amp; Gross Profit Margin Breakdown By Product Category</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>
<b>Footwear</b>			
Revenue (RMB million)	<b>1,534.8</b>	1,738.3	-11.7%
Gross Profit Margin (%)	<b>44.3</b>	44.2	+0.1 p.p.
<b>Apparel</b>			
Revenue (RMB million)	<b>726.5</b>	736.3	-1.3%
Gross Profit Margin (%)	<b>43.5</b>	41.7	+1.8 p.p.
<b>Accessories</b>			
Revenue (RMB million)	<b>49.5</b>	60.0	-17.5%
Gross Profit Margin (%)	<b>39.3</b>	38.9	+0.4 p.p.