

### **Disclaimer**



This presentation is prepared by Xtep International Holdings Limited (the "Company") and is solely for the purpose of corporate communication and general reference only. The presentation is not intended as an offer to sell, or to solicit an offer to buy or form any basis of investment decision for any class of securities of the Company in any jurisdiction. All such information should not be used or relied on without professional advice. The presentation is a brief summary in nature and do not purport to be a complete description of Company, its business, its current or historical operating results or its future prospects.

This presentation is provided without any warranty or representation of any kind, either expressed or implied. The Company specifically disclaims all responsibilities in respect of any use or reliance of any information, whether financial or otherwise, contained in this presentation.

This presentation contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, such as those that include the words "potential", "estimated", "expect", "anticipates", "objective", "intends", "plans", "believes", "estimates", and similar expressions or variations on such expressions may be considered "forward-looking statements".

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect the Company's results of operations are described in the "Financial Analysis", "Business Review" and "Future Plans".

### **Overview**



#### Financial Highlights

- The Group's revenue dropped slightly to RMB 2,310.8 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 pp 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 pp 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 RMB 310.3 million, mainly due to normalization of advertising and promotional cost for 1H2017 to 12.2% of revenue
- Strong net cash position, with RMB 2,565.3 million of net cash and cash equivalent, which is equivalent to 48.6% of net assets.
- Proposed interim dividend at HK 8.5 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 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



# **Results Highlights**



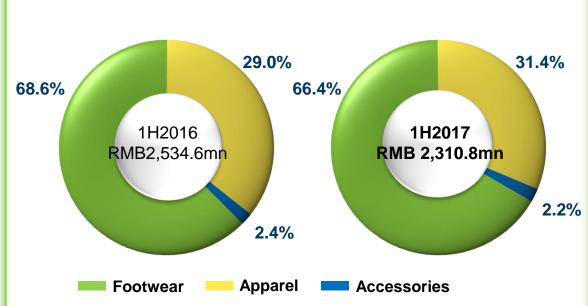
	For the six months ended 30 June		
(RMB mn)	2017	2016	Change
Revenue	2,310.8	2,534.6	8.8%
Gross Profit	1,015.6	1,098.5	7.5%
Operating Profit	479.1	583.4	17.9%
Profit Attributable to Equity Shareholders	310.3	380.1	18.4%
Basic Earnings per Share (RMB cents)	13.98	17.25	19.0%
Gross Profit Margin (%)	43.9	43.3	<b>0.6pp</b>
Operating Profit Margin (%)	20.7	23.0	<b>2</b> .3pp
Net Profit Margin (%)	13.4	15.0	1.6pp
Annualised ROE (%)	12.2	15.3	<b>3.1</b> pp

### Revenue



### Functional Apparel Growth Accelerates





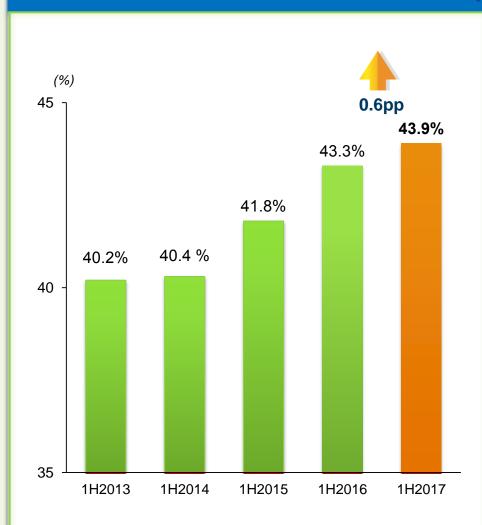
#### Change in revenue due to:

- Restructuring of the XTEP Kids division
- The decrease in revenue contribution from lower profit margin products
- Closing down less efficient retail stores

## **Gross Profit Margin**



### Continued Expansion in Gross Profit Margin



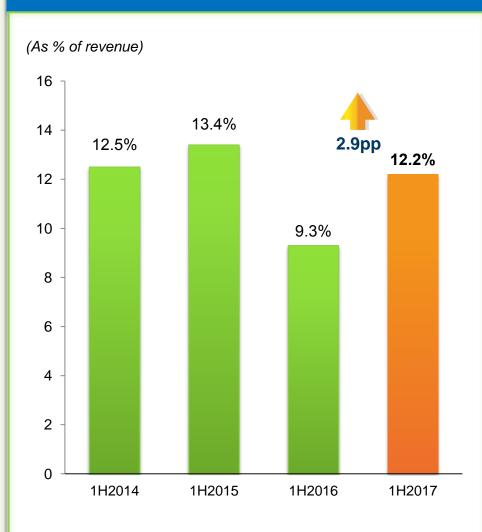
Gross profit margin continued to improve 5 years in a row due to the shift of product mix towards higher margin professional sportswear products and higher contribution from e-commerce

	For the six months ended 30 Jun			
GPM(%)	2017	2016		Change
Footwear	44.3	44.2	1	0.1pp
Apparel	43.5	41.7	4	1.8pp
Accessories	39.3	38.9	4	0.4pp
Overall	43.9	43.3	4	0.6pp

# **Operating Expenses Analysis**



### **Advertising & Promotional Costs**



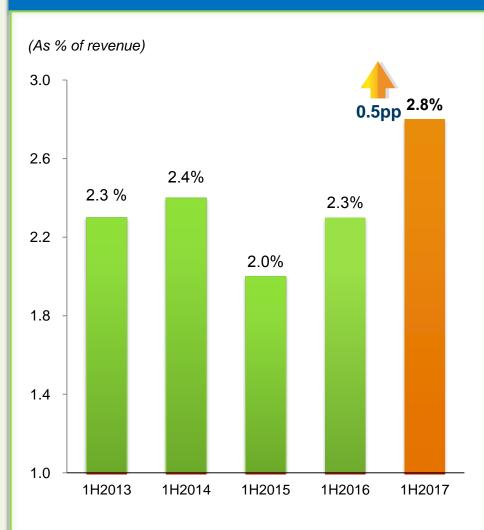
	For the six months ended 30 Jun		
(RMB mn)	2017	2016	Change
A&P cost	282.0	234.6	20.2%

- ★ A&P cost normalized in 1H2017 to historical range of 11-13%
- X XTEP 321 Running Festival became a major national event
- Added Chinese track and field Olympic winners Wang Zhen and Cai Zelin as sports celebrity spokespersons
- Added Zhao Liying as new female celebrity spokesperson to promote new female sports product series

## Operating Expenses Analysis (Con't)



### Research & Development Costs



	For the six months ended 30 Jun		
(RMB mn)	2017	2016	Change
R&D cost	64.3	58.0	10.9%

#### International Design Team

Continued to hire international designers from leading global sportswear brands to help drive both technical and aesthetic upgrades

#### Running Research Center

Set up China's first dedicated running research laboratory in 2016, with global leading research technologies and international scientists, to develop the best running shoes for Chinese runners

#### Research in Technical Material

Partnered with leading international fiber material developers such as the Dow Chemical Company, 3M and INVISTA in the United States, and Toray in Japan, to co-develop fiber technology for Xtep's exclusive use

### **Profit Attributable to Shareholders**



#### Profit Declined Mainly Due to Normalization of A&P Cost

#### Net profit declined 18.4% to RMB 310.3 million (1H2016: RMB 380.1 million) mainly due to :

- Normalization of A&P costs to approximately 11-13% of the Group's revenue
- A&P spending will be more evenly spread throughout in 2017 in comparison to 2016
- Continue to reposition XTEP brand as a professional sports brand. Therefore, certain reallocation of marketing and advertising resources to more sports related programs and events will be more beneficial to the Group
- Provision for long outstanding account receivables decreased to RMB 34.5 million (2016: RMB 63.7 million), showing improvement in the health of the Group's distributors and retail operations

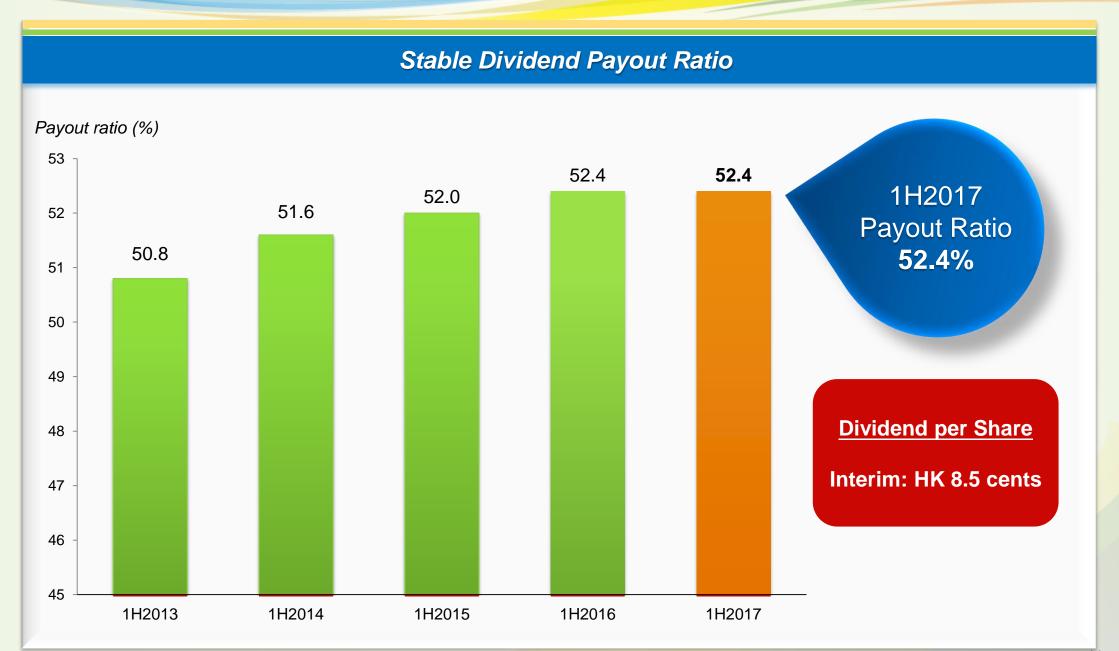
# **Income Tax Analysis**



	For the six months ended 30 Jun	
(RMB mn)	2017	2016
Tax Provision for the Year	123.3	151.6
Under Provision in Prior Years	8.0	7.1
Deferred Tax	-	14.0
Total Income Tax (A)	131.3	172.7
Profit before Tax before Provision of Trade Receivable (B)	501.5	640.2
Adjusted Effective Tax Rate = (A)/(B)	26.2%	27.0%

## **Consistent High Dividend Payout Ratio**

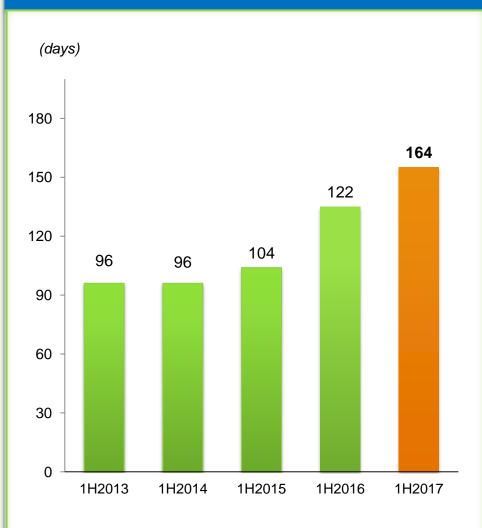




### Trade Receivables Turnover



### Trade Receivables Turnover Days



(Rmb mn)		
Trade Receivables	2017	2016
Balance at 1 Jan	1,916.2	1,603.2
Balance at 30 June	2,224.4	1,773.5
Average Balance	2,070.3	1,688.4
Revenue for the Period ended 30 June	2,310.8	2,534.6

- The increase in trade receivables turnover days was due to the Group voluntarily providing temporary support to assist distributors to open new flagship stores and increase the proportion of their directly owned retail stores
- Increasing the proportion of distributor directly owned stores increases retail channel manageability, and improves transparency and channel inventory, in order to help retail stores achieve higher sales efficiency

# **Operating Cashflow**



### **Operating Cashflow**

	For the six months ended 30 Jun	
(RMB mn)	2017	2016
Operating Cash Inflow	<b>92.4</b> 353.	
Tax Paid	<b>(161.7)</b> (10	
Others	(14.3)	(12.1)
Net Operating Cash Inflow / (Outflow)	(83.6) 232.4	

Net operating cashflow turned negative because of increased accounts receivable, due to proactively providing temporary support to distributors for opening flagship stores and flattening the retail channel

# **Strong Cash Position**



(RMB mn)	30 June 2017	31 Dec 2016
Treasury Deposits and Bank Deposits	757.7	1,398.8
Cash and Cash Equivalent	3,421.4	2,846.5
Total Cash and Cash Equivalent	4,179.1	4,245.3
Bank Borrowings	(1,613.8)	(1,501.6)
Net Cash and Cash Equivalent	2,565.3	2,743.7
Gearing Ratio	19.1%	18.4%

## **Solid Balance Sheet**

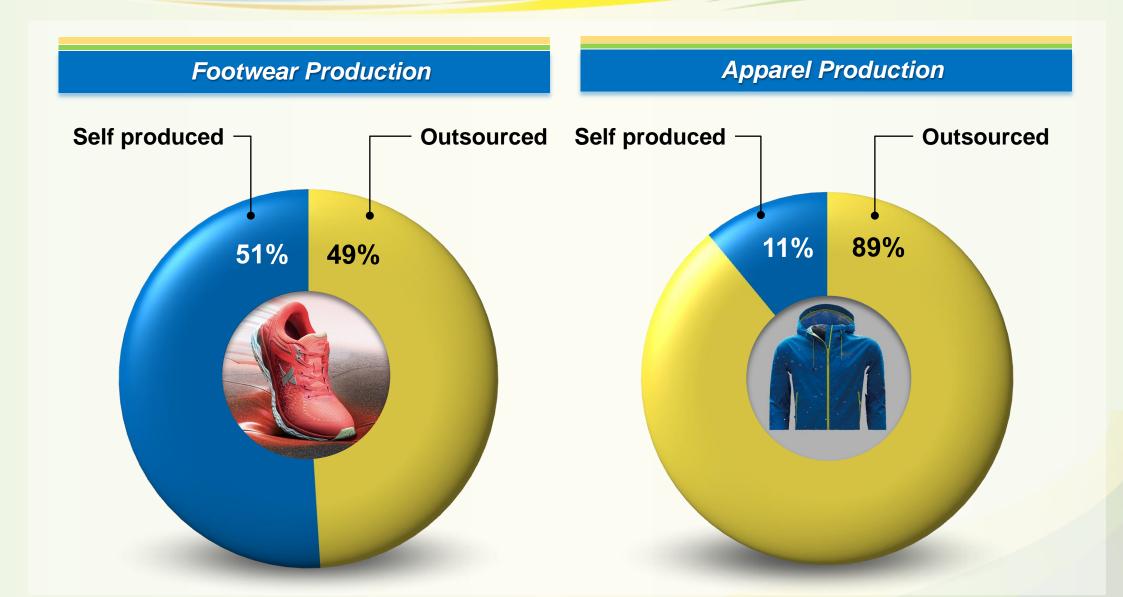


### Sustainable Growth Supported by a Solid and Healthy Balance Sheet

(RMB mn)	30 June 2017	31 Dec 2016	Change	
Current Assets	7,493.7	7,217.0	3.8%	
Current Liabilities	2,267.4	3,029.4	25.2%	
Net Current Assets	5,226.3	4,187.6	24.8%	
Current Asset Ratio (times)	3.3x	2.4x	37.5%	
Shareholders' Equity	5,188.8	4,953.5	4.8%	
Total Net Assets per Share	RMB 2.38	RMB 2.26	5.3%	
Estimated 2017 CAPEX approx. RMB 100-200 mn				

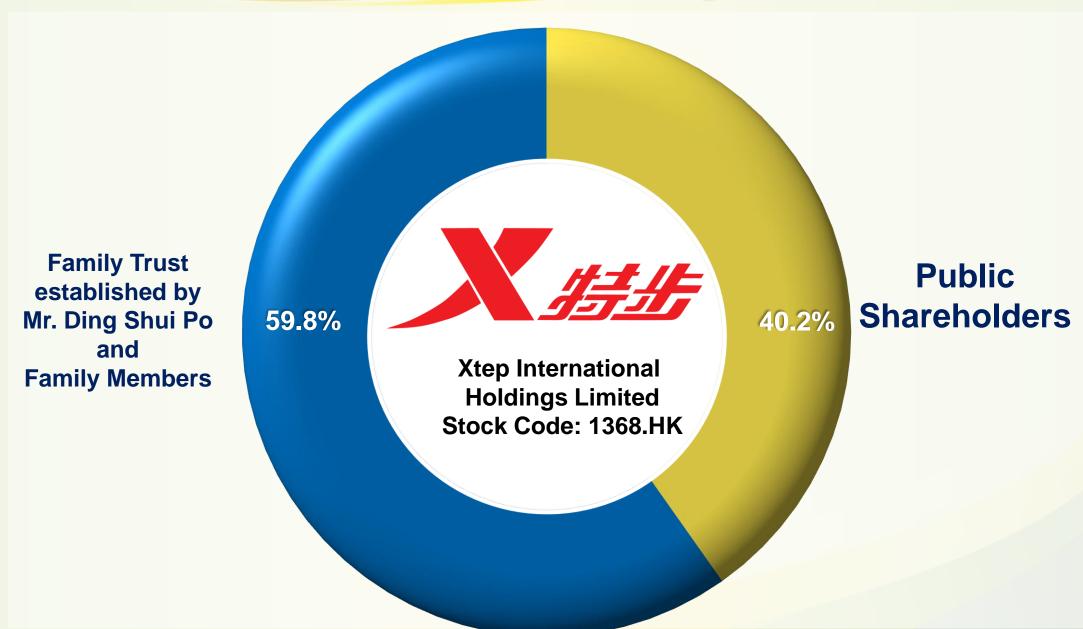
# **Production Capacity Allocation**





## **Shareholding Structure**







## **Sports Marketing**



### Running Remains the Core Sports Category

- Sponsored 13 marathons and other major running events in 1H2017 with total participants exceeded 280,000
- Cooperated with *Tencent* to sponsor *XTEP Penguin Run* in major cities such as Beijing, Shenyang and Chongqing, 10 runs will be held in 2017, more than 90 million runners were invited through Tencent's network
- Remained Official partner of China Marathon recognized by China Athletic Association
- Won 2016 Contribution Award for Development of Marathon in China and Contribution Award at Marathon Gala-China
- Won 2016 Most Popular Running Shoe Brand in China at the 2016 Sina Running Ceremony
- XTEP Runner's Club is the largest and most active brand running group in China, boasts of nearly 50,000 members across Greater China





























## **Sports Marketing** (Con't)



### XTEP 321 Running Festival

- Organized the 2<sup>nd</sup> Annual XTEP 321 Running Festival on 3-21-2017 to emphasize the Group's focus on running, through different channels both offline and online
- 3 XTEP Crazy Runs were held in Beijing, Changsha and Xiamen, and a large gala show was held in the evening to promote this festival
- The gala show was broadcasted live on Southeast Television(東南衛視) and through major online live-steaming platforms such as iQIYI and Tencent Video, reaching over 20 million people in total
- The special limited namesake edition shoe with our new celebrity spokesperson Zhao Liying launched during the show was sold out within 1 minute on the e-commerce platform
- **E-commerce revenue** generated from XTEP 321 Running festival in 2017 almost **doubled** that of 2016
- XTEP's retail shops also added XTEP 321 Running Festival advertisements, further capturing sales fueled by the event





# Sports Marketing (Con't)



### Sports Celebrity Spokespersons



- Wang Zhen王鎮
- Won the Men's 20km race walk title at the 2016 Olympics
- Third Chinese male athlete to win an Olympic gold medal in track and field
- Gold medalist of 20km race walk at 2014 Asian Games



- Head coach of the Ukraine National Football Team
- Second highest scorer in the history of A.C. Milan with 175 goals scored



- Part of China's 4x100m relay Olympic team in 2016 and competed in the 100m dash
- 4x100m relay team beat USA and won Gold at the 2017 IAAF Diamond League Monaco
- Refreshed the Chinese Men's 200m record at the IAAF Diamond League Shanghai on 13 May 2017
- X Finished second in the Men's 20km race walk at the 2016 Olympics
- Silver medalist of Men's 20km race walk at the IAAF World Race Walking Cup in 2014



#### Chen Ding 陳定

- First PRC male gold medal winner of 20km race walk event during 2012 Olympics
- Second Chinese male athlete to win an Olympic gold medal in track and field

#### **Kazakhstan National Track and Field Team**

Olga Rypakova is one of the world's leading triple jump athletes who won Gold Medal in the 2012 Olympics and Bronze Medal in the 2016 Olympics

# **Entertainment Marketing**



### Entertainment Celebrity Spokespersons



### **Products**



#### **Sports Footwear**

Introduced 3 core series of running shoes:

RUN FAST (競速快跑)

- Employed silicon technology to create a light-weight running experience for professional runners
- Includes one of the lightest running shoes in China RC160 (競速160)

RUN STRONG (動力暢跑) Applied the new generation of our core Dynamic Foam (動力巢), Reactive Coil (減震旋), and Air Mega (氣能環) technologies to emphasize professional shock absorption for routine runners

RUN FIT (舒適易跑)

✓ Used "Softpad<sup>™</sup>" (柔軟墊), "COMFYCUBES" (柔立方), and "X-Flex" (易彎折) technologies to offer entry-level runners a comfortable running experience



### Sports Apparel

Consolidated technologies into 6 core technology platforms to match different weather conditions and motion states runners encounter















### Products (Con't)

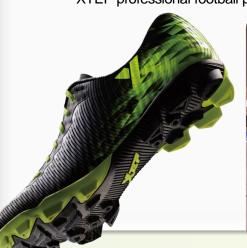


### **New Sports Category Products**

- Expanded organic growth to multiple sports categories' products:
  - Indoor fitness series
    Launched in 2Q2017, specifically used "Xtep Sports Elastic Technology" to allows athletes and sports participants to stretch freely during exercise
  - Female fitness series
    Launched in 2Q2017, products include yoga and fitness products, as well as products specifically for indoor training
  - Outdoor series
    Launched the first outdoor series in 4Q2016
  - Football series
    Launched XTEP Blade II x TRANSFORMERS co-branded limited edition football shoe in June 2017, which is based on 2<sup>nd</sup> generation XTEP professional football products

### Sports Lifestyle Products

- Captured the growing "athleisure" trend, offering fashionable and comfortable streetwear
- Two Footwear lines:
  - Casual sports shoes
  - × "π Series" skate shoes
- Two Apparel series:
  - Campus series
  - Urban series
- Transformer series
  Launched in summer of 2017 coinciding with the movie
  "Transformers: The Last Knight"









## Retail Channel Management



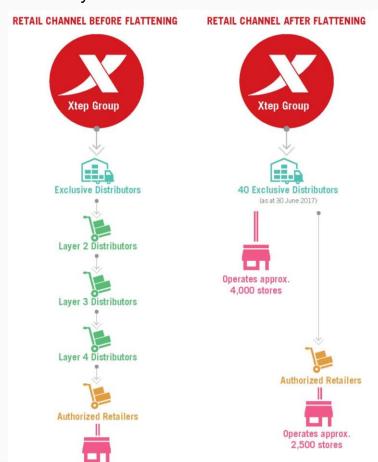
### Increased Retail Efficiency & Profitability

- More flagship stores to give consumers enhanced experience. As at 30 June 2017, XTEP had approximately 6,500 retail stores (31 Dec 2016: 6,800)
- Store numbers decreased by 4% as the Group opened more flagship stores and increased per store retail efficiency
- DRP-system covered over 95% of XTEP retail stores to facilitate real-time monitoring
- Continued to execute the universal retail store image upgrade to the "6Sth generation"



#### Flattened Distribution Channel

Flattened retail distribution network and detailed management led to increased control over stores and inventory



### E-commerce



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



- Transformed into a new "branding + retail" ("品牌+零售") model in 2017, with online as a channel for brand promotion
- Maintained the TOP sports footwear seller position on Tmall.com and JD.com by volume
- Products sold through Tmall.com, JD.com, XTEP official website (www.xtep.com.cn), and other well-established online shopping platforms
- Continue to be a key growth driver going forward

#### **Expanding O2O Model**

- First sportswear company to start using O2O ("Online-to-Offline") model with distributors in China
- O2O model was rolled out to 2,000 stores by 30 June 2017, achieving the goal of 2,000-3,000 six months earlier than expected
- Created a win-win situation where:
  - X XTEP products were aligned and popular items in offline stores also generated top sales online
  - Exponential effect from branding and promotional efforts
  - Inventory levels were better controlled
  - Distributors benefit for the Group's expertise and scale in e-commerce
  - Increased *profit* for both the Group and Exclusive Distributors



## **Prospects**



### PRODUCTS+: New Sports Categories and New Product Lines

- Continue R&D efforts to design the best running products for Chinese runner through China's first dedicated running research lab
- Continue to expand the 3 core running footwear series and 6 core technology platforms in apparel
- Introduce new professional skateboard series in 1Q2018, to echo the inclusion of skateboarding for the first time in the 2020 Olympic. Suitable for both competition and leisure, this series fits perfectly with XTEP's new image combining sports performance and aesthetic appeal
- Grow newly introduced football, outdoor, female and indoor training series
- Launch new product lines with XTEP celebrity spokespersons and popular culture



## Prospects (Con't)



### SPORTS+ : Operate a Running Ecosystem

- A comprehensive suite of running related services that starts with products, goes to events and activities, and to the community
  - Continue the vision of being a part of, and operating, a running ecosystem beyond products and sponsorships with XTEP 321 Running Festival as the best embodiment
  - Olympic Forest Park XTEP Running Track and XTEP flagship stores together with XTEP Run Club as symbolic gathering points for runners nation-wide, where they can receive professional advice and information on local running events and activities
  - Enhance Xtep mobile APP to foster a closer bond between XTEP and runners, and provide tailor-made products and services by analyzing the usage data
  - Continue to sponsor major marathons and running events



## Prospects (Con't)



#### INTERNET+ : Commitment to Technology and Connectivity

- Harness the power of the Internet, mobile Internet and other digital technologies for *big data building*, O2O community building, to achieve *seamless multi-channel precise marketing*
- Establish a "new-retail" operation team before end of 2017 to explore the new practices of user-centered retail marketing
- Open a set of directly owned XTEP flagship stores in the coming years to showcase new professional sports image and to connect directly with consumers
- Increase profit generation through e-commerce, with faster replenishment and delivery cycle





## **Investment Highlights**



### Key Investment Highlights

- XTEP's brand image has been successfully solidified as the "China's Runner's Choice" brand, after restructuring towards being a professional sports brand with stylish and functional products
- Continued to be the sportswear sponsor of the most number of marathons in China with 13 marathons and running events in 1H2017
- Maintained leading sales positions on Tmall.com and JD.com with e-commerce contributing around 20% of overall revenue, which continued to outpace domestic competitors
- Gross profit margin continued to increase for the 5th consecutive year to 43.9% (1H2016: 43.3%)
- Strong net cash position, with RMB 2,565.3 million of net cash and cash equivalent, which is equivalent to 48.6% of net assets
- Dividend payout ratio of 52.4%, maintained high dividend payout of above 50% since listing in 2008



### **CONTACTS**



#### **Xtep Investor Relations Department**

Tel: (852) 2152 0333 Email: ir@xtep.com.hk

Website: http://www.xtep.com.hk

#### Strategic Financial Relations Limited

Tel: (852) 2864 4817 Email: sprg\_xtep@sprg.com.hk





