



**XPD Soccer Gear Group Ltd**  
**Annual General Meeting**  
**29 May 2017**

# Agenda

- ① Introductions
- ② 2016 Report and 2017 Business Updates
- ③ Questions

# Financial performance- 2016 Financial Year

## 财务表现—2016

- 2016 Revenue A\$116.8 million (2015 Revenue A\$102 million).
- Soccer sportswear represents 64% of sales.
- Gross Profit margin 33.1% despite competitive environment .
- Total costs for retail refurbishment were A\$7 million.
- NPAT A\$13.4 million.
- Net cash flow from operations – A\$8 million.

# Analysis of macro market

- Chinese Government policies to encourage football participation to underpin demand for XPD products
- Primary target is school age children
- China football association reporting on plans to increase the number of school with compulsory soccer from 20,000 to 50,000 by 2025
- 70,000 football fields to be renovated and constructed to further develop the Government football plan
- Government plans extend to 2050 with China determined to be a “top class soccer nation”

# Distribution and retail networks

- As at 31 December 2016, the total number of retail outlets reached 2102, net increase of 40 outlets compared to FY2015.
- Geographically, approximately 85% are located in third-tier and fourth tier cities in China.
- The retail refurbishment program was contained in the 2016 business plan and budget.
- Common practice for manufactures to support retail product presentation e.g. Anta, 361.
- 700 stores representing approximately 50% of XPD total sales in 2016 were completed.
- XPD sales increased by approximately 10% due to retail refurbishment.
- Selection of retail stores was driven by sales performance, sale potential, and soccer development in that area.
- Future plans –approximately \$6m over 2 years. XPD will not refurbish the stores if they fail to meet selection criteria.

# Ecommerce

- China has become the fastest and largest trading market for global e-commerce development. The company believes e-commerce is a rapidly growing and efficient way to distribute XPD's products, especially shopping through the mobile phone and tablet.
- Using e-commerce, the company can broaden our sales channels beyond the limits of region and time to sell and promote our products and brand.
- The company continues to grow our sales using third party e-commerce platforms including Tmall, JD.com, Paixie.net and see this increasing in the future.
- The company does not intend to build its own online sales platform in the near future.

# Campus soccer

- The Company views the primary, secondary and colleague student population as the largest potential user base.
- XPD continues to strengthen its R&D and product lines in junior soccer wear and has launched children/youth soccer series.
- The school + XPD + soccer club model has been extended to 68 schools.
- 40% of sales generated from student population
- XPD goal is to supply over 7 million of Chinese students in the coming five years.

# Brand promotion and marketing

- The Company budgetted 8% of 2016 annual revenue to brand promotion and marketing.
- The Company anticipates the branding promotion marketing costs to continue around this level in future.
- The Company sponsored various school leagues and football clubs in China
- XPD used various traditional media channels such as commercial television, outdoor, newspapers and magazines, whilst increasing its investment through social media promotion activities.



# Production

- No change to the company's production policy to strike an balance between self-production and outsourcing, having regard to costs and production scheduling
- In 2016, 6.5 million boots in-house production and 4.5 million outsourced, compared to 6.8 million boots in-house production and 1.5 million outsourced in 2015
- Henan production facilities
  - Two shoes production lines were installed at Henan in May. Production commences in June. XPD anticipated approximately additional 1.2m boots from Henan in 2017.
  - Delay was caused by weather, staff training, identification and selection of senior factor manager, and delivery of machineries and installation.
- Henan has leased 5 of 8 factories including 2 factories to XPD in the industrial complex. The negotiation over another 2 is currently underway.

# Acquisition

- XPD has a strategic interest in shoes component supply in order to reduce the cost of production and enhance innovation and R&D
- XPD currently purchases shoe soles from third party manufactures
- Shoe soles involve advanced technology to provide multiple group and color characters for different surface – grass, synthetic grass, indoor and outdoor
- XPD sees this shoe component sector as adding value
- A number of strong companies in the sector – some of whom are existing suppliers to XPD. Two candidates have been identified.
- Subject to valuation, culture fit and timing, an acquisition in this sector would enable XPD to establish a presence in the upstream sector and drive innovation into shoe sole raw material supply to meet customer demand

# Future strategies

- Soccer remains the core sports category focus.
- New sports category product launches.
- Increase geographic footprint and enhance same store sale.
- Continue to enhance brand awareness and influence.
- Innovate new products using new technologies and materials, so as to enhance product sales and build brand premium.
- Increase online sales
- Grow the business through vertical and horizontal acquisitions of upstream and downstream enterprises, leading to reduced operating costs, increased sales, and a higher return on investment.

# Financial performance – up to 31 March 2017

- Revenue: A\$26.9 million (RMB141million) , up approximately 2% from the corresponding period in 2016
- Gross Profit margin: 31.7%, slightly down 0.3% from the corresponding period in 2016 due to the increase in costs of raw materials.
- Profit before tax: A\$5.7million (RMB29.6 million), down 10% from the corresponding period in 2016, primarily due to payment of factories rental to Henan Yuanlong(RMB1.4million), and increase of sales bonus of staff for 2016.
- NPAT: A\$4.3 million (RMB22.4 million), down 9.3% from the corresponding period in 2016
- Net cash at Bank after borrowings and Notes approx. A\$50.5 million, bank with ICBC and Everbright

## 2017 Sales guidance

XPD estimates sales in 2017 to be between A\$126 million and A\$130million

# Dividend

- The Board of XPD resolved on 29 May 2017 to adopt a dividend policy under which XPD will endeavour to maintain an annual minimum dividend payment ratio of 20% of net profit after tax for 2017 and ongoing.
- In determining an appropriate dividend payment, XPD will consider, among other things:
  - Legal and prudential requirements; and
  - Cash flow requirements for investing and balance sheet activity
- In addition, the Board maintains the discretion to determine whether or not a dividend is payable and the amount of any dividend payment.

# Questions