

XPD Soccer Gear Group Limited 2016 Half-Year Results

(30 August 2016, Melbourne) XPD Soccer Gear Group Limited (XPD or the Company and its subsidiaries, together called the Group or We, ASX Code: XPD) announced its half-year results for the six months ended 30 June 2016

Revenue increased 20% to \$56m

Gross Profit increased 18% to \$18.4m

Net Profit after Tax (NPAT) decreased 35% to \$4.67m

NPAT was impacted by a significant investment of \$5.9 million in a retail display refurbishment program. (fully expensed)

Underlying NPAT (removing one off expense) increased 23.6% to \$8.9m

Net cash of \$36.8m at 30th June 2016

Share buyback program announced

Sales guidance of \$115m to \$120m for the FY2016

Highlights for the six months ending 30 June 2016 compared to the previous corresponding period

- Revenue increased 20% from \$46.6m to \$56.1m
- Gross Profit increased from \$15.6m to \$18.4m
- Gross Profit margin 32.8%
- Retail display refurbishment program costs of \$5.9m (\$4.23 m after tax) involving 600 retail outlets were fully expensed in the period.
- Reported NPAT decreased 35% from \$7.2m to \$4.7m
- Earnings per Share of 1.19c
- Net Tangible Assets of 17.34c per share
- Strong balance sheet with \$44.7m cash (up \$7m)
- Financial Liabilities decreased \$3.5m to \$7.9m
- The number of Distributors in China increased from 237 to 240
- The number of Retail Outlets increased from 2010 to 2100
- Henan Yuanlong JV project makes significant progress, with two factories expected to be in production in fourth quarter 2016
- The Chinese Soccer industry continues to grow, supported by Central Government Policy, demographic changes, and the continued urbanization and growth of the middle class.
- Share buyback program announced to purchase up to 10% of the issued capital of XPD

Business Review

The consumer demand for soccer sportswear continues to be fuelled by encouraging policies and initiatives from the PRC government, including the China Football Sports Reform Program adopted in March 2015, Medium and Long Term Development Guidelines for Football in China issued by the PRC National Development and Reform Commission in April 2016 and the planned construction over the next ten years of more than 70,000 football fields in the country.

These government policies set short-term football participation targets including over 30 million elementary and high school students and over 50 million PRC residents regularly playing football.

During the first half of 2016, sales experienced 20% growth over the corresponding period last year to \$56.1m. This growth is expected to continue, assisted by the policies of the Chinese Central Government to make soccer a compulsory part of the school curriculum to further promote soccer among the younger generation.

Gross profit increased 18% to \$18.4m, with margins remaining steady at around 33%.

Reported NPAT decreased 35% to \$4.7m. This was affected by the expensing of \$5.9m in retail display refurbishment expenses in 600 retail outlets. The company anticipates an additional \$2m will be invested in this program in the second half of 2016.

The basic and diluted earnings per share for the half year was 1.19 cents.

Operation Highlights

In the first half of 2016, XPD continued to focus on China's mass sportswear market with its main products in soccer sportswear, alongside its other sportswear categories (running, table tennis and badminton etc.)

XPD continued the expansion of its distribution and retail network with an emphasis on its competitiveness in second, third and fourth tier cities in China. As of 30 June 2016, XPD sells through a network of 240 distributors and 2,100 retail outlets.

To reinforce the XPD brand image, visibility, and enhance its sales, XPD commenced a retail display refurbishment program to upgrade its signage, product display and racking in retail outlets. In the 1st half of 2016, XPD has now refurbished its product displays in 600 retail outlets.

To drive sales in junior sportswear, XPD has developed what it calls "Campus Soccer", an alliance between "school + XPD + soccer club", where

three parties work together to allow more students in schools to participate in soccer and have access to XPD products. This model was piloted in Jinjiang city, where XPD is located, and is now replicated into other XPD major markets in China including North-eastern China, Guangxi Province and Shandong Province.

XPD recognises the importance of its brand development by increasingly using new social media to promote its brand and products, whilst continuing with traditional means of promotion and sponsorships. In the 1st half of 2016, XPD rolled out a number of nationwide soccer activities through social media, such as

- “I am the Captain” to target adult grass-root soccer teams,
- “Little Captain” to target junior soccer teams in schools,
- “Baby Football” to target kids.

XPD also collaborates with Banmabang, which is an mobile “app” providing coverage for the grass-roots soccer league program. This is a further social media platform to release new products and communicate with consumers and the wider public.

Internet and mobile sales have evolved to become an important driving force for all retail business in recent years. XPD has focused on building its contemporary e-commerce business. Currently, XPD conducts its e-commerce business through various leading online platforms such as Tmall, JD and Paixie. XPD has also established an e-store on the largest social media site ‘WeChat’ in China. Through the WeChat store, consumers can view products, place orders and recommend to friends through a social media platform from their mobiles. XPD aims to expand the online sales business, and make it a significant contributor of revenue in the future.

To further leverage the XPD brand reputation and drive broader sales in soccer shoes, apparel and accessories, XPD has also launched a soccer products kit in China in 2016.

XPD has developed a database of 10,000 junior foot samples to analyse their foot shapes in order to develop soccer footwear that are more suitable to Chinese juniors. XPD junior series of soccer footwear has been well received in the market and has recently enjoyed approximately 15% growth in distributors’ orders.

XPD has been consistently strengthening its product innovation and R&D to develop multi-functional and value-for-money products. XPD has continued to optimise its R&D capabilities by improving the design, modeling and style selection, and introduced cutting-edge fabrics in its footwear and apparel products, to achieve product differentiation.

After Beijing's successful bid to host the 2022 Winter Olympics, the Chinese government has implemented the "300 Million People Winter Sports Plan" to enhance public awareness of winter sports. This is expected to raise public interest in winter sports and the subsequent demand for related sportswear. As such, XPD will devote resources to develop winter sportswear and equipment to drive further growth.

To expand XPD's production capacity, the Company has entered into a 5-year lease agreement with Henan Yuanlong Industrial Co. Ltd (Yuanlong) for two manufacturing buildings and one dormitory in Henan Province, China. XPD is currently acquiring shoe machinery and equipment for two production lines and production is expected to commence in approximately October 2016.

Given the XPD's strong balance sheet and cash flow, XPD will continue to actively pursue its growth strategy and also acquisitions that facilitate upstream and downstream integration. This could potentially enable XPD to deliver higher margins together with growth in market share.

Finally, XPD has advanced its plan to support children in poor areas to play soccer. In June 2016, XPD sponsored a New Hope school in Changting County in Fujian Province with soccer sportswear.

Capital Management

Directors have announced XPD will implement an on market share buyback scheme allowing for the purchase of up to 10% of the issued capital.

In the opinion of Directors, the current share price does not reflect the proper value of the business, particularly given the strong history of growth and earnings, and the positioning of the Company in a high growth industry.

In line with the last financial year, XPD will not be paying an interim dividend. Directors anticipate a full year dividend will be announced with the 2016 Full Year results, subject to satisfactory profit performance.

Commenting on the results, **Mr. Andrew Smith, Chairman**, said "Our results in the last half combine a continued strong revenue growth together with essential investment to enhance our brand and product presentation at the retail point of sale. This investment was foreshadowed in our Strategic Plan and at the conclusion of this program, we will have consistent high quality product signage, racking and display across main retail outlets.

We have also moved forward, as planned, with the leasing of two new factories to expand our production capacity, an essential move to take advantage of the growth in demand for our soccer footwear.

The company remains well placed to continue to take advantage of future growth opportunities "

Mr. Jiameng Zhang, CEO and Executive Director, commented, “China’s sports industry will further expand, and demand for professional sportswear, in particular soccer sportswear, will remain on a steady rise. XPD will continue to expand its retail outlets and market penetration whilst expanding its contemporary e-commerce business to boost online sales.

XPD will remain devoted to product innovation and R&D to maintain its market position.

XPD will continue to improve our operational efficiency to achieve long-term profitability, strengthen our sustainable business model, and reward shareholders.’

Outlook

We remain confident that the soccer sportswear sector will continue to grow in China, supported by unprecedented Government support for the game and the ongoing demographic changes in China (urbanisation, a growing middle class and the removal of the One Child Policy).

Based on sales to date, orders in hand and the results of a recent Distributor Sales Fair, the Group expects full year sales of \$115m to \$120m (assuming pre existing exchange rates).

About XPD Soccer Gear Group Limited

XPD Soccer Gear Group Limited is a leading and fast-growing sportswear company in China. It listed on Australian Securities Exchange on 21 May 2015. The Group is primarily engaged in designing, developing, manufacturing, distributing and marketing sportswear under the “XPD” brand. XPD has a focused branding strategy on soccer products. XPD has established an extensive supply chain management system through in-house and sub-contracted manufacturing operations; and an extensive distribution network in China through distributors.

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