A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

A1. Basis of accounting and changes in accounting policies

a) Basis of accounting

The interim financial statements of Xingquan International Sports Holdings Limited (the "Company") for the second quarter ended 31 December 2011 are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2011 and the accompanying explanatory notes attached to the interim financial statements.

The Group has adopted IAS 1(Revised) and IFRS 8 for the year ended 30 June 2011 and provides comparative information that conforms to the requirements of the revised standard. The key impact of the application of the revised standard is the presentation of an additional primary statement, that is, the statement of comprehensive income.

The requirements of IAS 1 (Revised) and IFRS 8 are as follows:

1. changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income;

2. components of comprehensive income to be excluded from statement of changes in equity;

3. items of income and expenses and components of other comprehensive income to be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of comprehensive income);

4. presentation of restated balance sheet as at the beginning of the comparative period when entities make restatements or reclassifications of comparative information;

5. segment information is presented on the same basis as that used for internal reporting process and;

6. segment revenue, segment profit and segment assets are also measured on a basis that is consistent with internal reporting.

The revisions also include changes in the titles of some of the financial statements primary statements.

b) Changes in accounting policies

There are no changes in accounting policies for the quarter ended 31 December 2011.

c) Basis of consolidation

The consolidated financial statements of the Group have been prepared using the historical cost method similar to the “pooling-of-interest” as acquisition of subsidiary is accounted for as reconstructions of businesses. Under the historical cost method, the acquired assets and liabilities are recorded at their existing carrying amounts.

The consolidated financial statements include the results of operations, and the assets and liabilities of the pooled enterprises as part of the Group for the whole of the current period.

Other than accounting of subsidiaries using the historical cost method as disclosed above, the results of the subsidiaries acquired during the financial year are included in the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Acquisitions of subsidiaries, if any, are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiaries acquired or disposed of during the financial year are included or excluded from the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

d) Functional currency and translation to presentation currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Renminbi.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group companies

The results and financial positions of the Group entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(1) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial position;

(2) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting exchange differences are recognised as a separate component of equity.

A2. Audit report of the Group's preceding annual financial statements

The Group's audited consolidated financial statements for the financial year ended 30 June 2011 were not subject to any audit qualification.

A3. Seasonal or cyclical factors

There are no seasonal or cyclical factors which materially affect the Group during the quarter under review.

A4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and financial year-to-date.

A5. Material changes in estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect on the results of the current quarter under review.

A6. Changes in share capital and debts

There were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury share and resale of treasury shares for the current financial year to date.

A7. Subsequent material events

There are no other material events as at the date of this announcement that will affect the results in the financial year under review.

A8. Segment information

a) Operating segments

	6 months ended 31 December 2011				
		Casual	**Apparels and**		
	Shoe soles	**Footwear**	**Accessories**	**Eliminated**	**Total**
	RMB 000	**RMB 000**	**RMB 000**	**RMB 000**	**RMB 000**
External revenue	206,624	329,848	330,625	-	867,097
Inter-segment revenue	47,334	-	-	(47,334)	-
	253,958	329,848	330,625	(47,334)	867,097
Results					
Segment results	66,467	115,889	98,499	-	280,855
Other income					6,043
Selling and distribution expenses					(95,650)
Administrative expenses					(24,008)
Finance costs					(1,296)
Profit before taxation					165,944
Income tax expenses					(32,106)
Profit after taxation					133,838
Other information					
Segment assets	150,195	274,905	260,617	(15,580)	670,137
Unallocated assets					
- Land use rights					13,697
- Other receivables					136,100
- Cash and bank					457,279
Total assets					1,277,213
Segment liabilities	24,133	27,554	12,002	(15,580)	48,109
Unallocated liabilities					
- Borrowing					28,000
- Other payables					82,721
- Current tax payable					15,822
- Deferred tax liability					3,550
Total liabilities					178,202
Capital expenditure	4,657	545	434		5,636
Depreciation of property, plant and equipment	5,296	3,379	3,386		12,061
Amortisation of land use	-	70	71		141

a) **<u>Operating segments *(con't)*</u>**

	6 months ended 31 December 2010				
		Casual	Apparels and		
	Shoe soles	footwear	Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	140,010	325,375	265,433	-	730,818
Inter-segment revenue	40,701	-	-	(40,701)	-
	180,711	325,375	265,433	(40,701)	730,818
Results					
Segment results	46,402	114,134	71,288	-	231,824
Other income					903
Selling and distribution expenses					(69,096)
Administrative expenses					(22,058)
Finance costs					(1,905)
Profit before taxation					139,668
Income tax expenses					(38,327)
Profit after taxation					101,341
Other information					
Segment assets	100,025	265,282	196,161	(8,695)	552,773
Unallocated assets					
- Land use rights					13,979
- Other receivables					129,175
- Cash and bank					378,053
Total assets					1,073,980
Segment liabilities	30,910	24,852	13,182	(8,695)	60,249
Unallocated liabilities					
- Borrowing					78,000
- Other payables					72,170
- Current tax payable					12,365
- Deferred tax liability					16,778
Total liabilities					239,562
Capital expenditure	4,007	40,836	33,313		78,156
Depreciation of property, plant and equipment	5,045	466	380		5,891
Amortisation of land use	1	-	-		1

b) Geographical segments

As the business of the Group is engaged entirely in the People's Republic of China, no reporting by geographical location of operation is presented.

A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Company's audited consolidated financial statements for the year ended 30 June 2011.

A11. Corporate proposals

There were no corporate proposals announced but not completed as at the date of this report.

A12. Contingent liabilities

There were no material changes in the contingent liabilities or contingent assets since the last financial year ended 30 June 2011.

A13. Capital commitments

	RMB 000
Authorised capital expenditure not provided for in the financial statements as at 31 December 2011 are as follows:	
- contracted	37,800

A14. Changes in the composition of the Group

There are no other changes in the composition of the Group during the financial year-to-date.

A15. Reserves

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation of the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC authorities, and are not available for dividend distribution to the shareholders.

Merger reserve

The merger reserve arises from the difference between the nominal value of shares issued by the Company and the net tangible assets of subsidiaries acquired under the pooling interest method of accounting.

Currency translation reserve

Currency translation reserve represents translation differences arising from translation of foreign currency financial statements into presentation currency of the Group.

A16. Related party transactions

There are no related party transactions during the current quarter.

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1. Review of performance

a) Financial Year-to-date vs. Previous Financial Year-to-date

The Group achieved a revenue and PBT of RMB867.1 million and RMB165.9 million respectively for the 6 months financial period ended 31 December 2011 ("FPE 2012"). The revenue of RMB867.1 million represents an increase of 18.6% as compared to the revenue of RMB730.8 million recorded for the 6 months financial period ended 31 December 2010 ("FPE2011").

The increase in revenue is contributed by the following:

(i) Increase in sales volume of shoe sole and apparel from approximately 7.7 million pairs and 2.6 million pieces respectively in FPE2011 to approximately 11.5 million pairs and 3.0 million pieces respectively in FPE2012.

(ii) Increase in average selling price of shoe from RMB107.8 per pair in FPE2011 to RMB109.8 per pair in FPE2012, and increase in average selling price of apparels from RMB96.8 per piece in FPE2011 to RMB104.9 per piece in FPE2012. The substantial increase in the selling price of apparels is due to the successful brand upgrade to GERTOP which is in the outdoor casual wear segment compared to the previous outdoor sports wear. Outdoor casual wear in general tends to have higher selling prices compared to outdoor sports wear.

The PBT of RMB165.9 million for FPE2012 represents an increase of 18.8% as compared to the PBT of RMB139.7 million recorded for FPE2011. The increase in PBT was mainly due to the increase in revenue as mentioned above.

The increase in selling and distribution expenses from RMB69.1 million in FPE2011 to RMB95.7 million in FPE2012 is mainly due to higher expenses in relation to renovation subsidies for the sales outlets amounting to RMB15.7 million, display shelf for the sales outlets amounting to RMB26.9 million and expansion of sales network expenses amounting to RMB25.2 million.

The profit after taxation ("PAT") of RMB133.8 million for FPE2012 represents an increase of 32.1% as compared to PAT of RMB101.3 million recorded for FPE2011 due to higher profit before tax.

In the current quarter, sales incentives have been netted off against revenue instead of included under selling and distribution expense as was the previous classification as the management is of the opinion that the nature of the expense is akin to sales rebate. The comparative amount of RMB24.5 million for the financial period ended 31 December 2010 was accordingly reclassified from selling and distribution expense to revenue.

The effective tax rate decreases from 27.4% in FPE2011 to 19.3% in FPE2012 due to higher contribution from Addnice China that is entitled to a 50% reduction in income tax.

Based on the Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises, Addnice Sports, Addnice China and Xingquan Plastic are entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years starting from their first profitable year of operation. Addnice China is exempted from the state corporate income tax for its first two profitable calendar years of operation (i.e. from 1 January 2008 to 31 December 2009) and thereafter, is entitled to a 50% relief from the state corporate income tax for the third to fifth consecutive years (i.e. from 1 January 2010 to 31 December

2012). Addnice Sports and Xingquan Plastic had fully utilised their tax incentives and are subject to the full state corporate income tax.

Performance of the respective operating business segments for FPE2012 as compared to FPE2011 is analysed as follows:

Shoe sole – The increase in revenue from RMB140.0 million in FPE2011 to RMB206.6 million in FPE2012 was mainly due to increase in sales volume from 7.7 million pairs in FPE2011 to 11.5 million pairs in FPE2012.

Shoe – The increase in revenue from RMB325.4 million in FPE2011 to RMB329.8 million in FPE2012 was mainly due to increase in average selling price from RMB107.8 per pair in FPE2011 to RMB109.8 per pair in FPE2012.

Apparel - The increase in revenue from RMB249.5 million in FPE2011 to RMB310.9 million in FPE2012 was mainly due to increase in sales volume and average selling price from 2.6 million pieces and RMB96.8 per piece in FPE2011 to 3.0 million pieces and RMB104.9 per piece in FPE2012.

b) Current Quarter vs. Previous Year Corresponding Quarter

The Group achieved a revenue and profit before taxation ("PBT") of RMB440.8 million and RMB76.8 million respectively for the current quarter ("Q2FY2012"), representing an increase of 11.7% and 7.9% respectively as compared to the corresponding period in the preceding year.

The increase in revenue is contributed by the following:

(i) Increase in sales volume of shoe sole from approximately 3.8 million pairs in Q2FY2011 to approximately 5.7 million pairs in Q2FY2012.

(ii) Increase in average selling price of apparels from RMB99.9 per piece in Q2FY2011 to RMB108.0 per piece in Q2FY2012.

The PBT of RMB76.7 million for Q2FY2012 represents an increase of 7.8% as compared to the PBT of RMB71.1 million recorded for Q2FY2011. The increase in PBT was mainly due to the increase in revenue as mentioned above.

Performance of the respective operating business segments for Q2FY2012 as compared to Q2FY2011 is analysed as follows:

Shoe sole – The increase in revenue was mainly due to increase in sales volume.

Shoe – The marginally decrease in revenue was mainly due to slight decrease in average selling price from RMB111.6 per pair in Q2FY2011 to RMB110.7 per pair in Q2FY2012.

Apparel - The increase in revenue in Q2FY2012 was mainly due to increase in both sales volume and average selling price.

B2. Variation of results against immediate preceding quarter

	Current quarter 31 December 2011 RMB 000	Preceding quarter 30 September 2011 RMB 000
Revenue	440,798	426,299
Profit before taxation	76,753	89,191

The Group recorded a revenue of RMB440.8 million for Q2FY2012, representing an increase of 3.4% as compared to the revenue of RMB426.3 million recorded for the quarter ended 30 September 2011 ("Q1FY2012"). The increase in revenue was due to an increase in the sales of shoe soles, apparels and accessories.

The profit before taxation of RMB76.8 million for Q2FY2012 represents a decrease of 13.9% as compared to the profit before taxation of RMB89.2 million recorded for Q1FY2012. This was mainly due to the higher selling and distribution costs for Q2FY2012.

B3. Prospects for FYE 2012

Based on market research conducted by Converging Knowledge Pte Ltd, the outdoor casual wear market is estimated to be worth RMB27 billion in 2010. Generally, growth rates for the northern region in China tend to be higher as Chinese consumers in the said region have a preference for a more “rugged” outlook, which outdoor casual wear can offer. On the average, the outdoor casual wear market is expected to see growth of 30% annually for the next two years (2011-2012), thereafter slowing down to 20% in the third year (2013). On this basis, the market is expected to reach in approximately RMB55 billion by 2013.

Nevertheless, we are aware that the global economic uncertainties may impact the spending pattern of the Chinese consumers which may then impact our business. As such, we will continue to be wary of the changes in the economic conditions. In view of the above, our Board of Directors believes that the Group’s prospects for the financial year ending 30 June 2012 should remain positive.

B4. Profit forecast and profit guarantee

The Group has not provided any profit forecast or profit guarantee in any public document for the current financial quarter.

B5. Profit before taxation

The Group’s profit before taxation is arrived at after charging/(crediting):

	Current year quarter RMB 000	Current year to date RMB 000
Depreciation of property, plant and equipment	6,024	12,061
Amortisation of land use rights	70	141
Write off of property, plant and equipment	690	690
Interest expenses	524	1,296
Interest income	(522)	(1,128)

Save for the above items, there are no other items required to be disclosed according to Note 16 of Appendix 9B on Quarterly Report issued by Bursa Malaysia.

B6. Taxation

Taxation comprises the following:

	Current Quarter	Current year to date
	RMB 000	**RMB 000**
Deferred tax expenses	-	-
PRC income tax	15,821	32,106
	15,821	32,106

The effective income tax rates of the Group for the current quarter and current year to date were 20.6% and 19.3% respectively as compared to the applicable tax rate of 25%. The lower effective tax rate was due to higher profit contribution by Addnice China that is currently entitled to a 50% relief from the state corporate income tax. Please see Note B1 for details**.**

B7. Group borrowings

The Group's borrowings as at 31 December 2011 were as follows:

	Total RMB 000
Short term bank loans – secured	28,000

B8. Changes in material litigation

As at the date of this report, there is no litigation or arbitration, which has a material effect on the financial position of the Group and the Board is not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B9. Dividend

There was no dividend declared by the Company for the current quarter.

B10. Earnings per share

a) Basic

Basic earnings per share is calculated by dividing profits for the period attributable to equity holders of the Company before other comprehensive income by weighted average number of ordinary shares in issue during the period:-

	Individual Quarter Ended		Individual Quarter Ended	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RMB	RMB	RM	RM
Net profit attributable to equity holders of the Company	60,122,000	45,567,000	30,272,000	22,943,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.20	0.15	0.10	0.07

	Cumulative Quarter 6 Months Ended		Cumulative Quarter 6 Months Ended	
	31.12.2011 RMB	31.12.2010 RMB	31.12.2011 RM	31.12.2010 RM
Profit attributable to equity holders of the Company before other comprehensive income	130,334,000	101,573,000	65,623,000	51,143,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.42	0.33	0.21	0.17

b) Diluted

There is no diluted earnings per share as there were no potential dilutive ordinary shares outstanding as at end of the current and preceding quarter under review.

B11. Realised and unrealised profits/(losses)

	Cumulative Quarter 6 Months Ended		Cumulative Quarter 6 Months Ended	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RMB 000	RMB 000	RM 000	RM 000
Total Retained Profit/(Loss)				
Realised	671,056	430,014	337,877	216,501
Unrealised	(1,791)	(19,862)	(902)	(10,000)
	669,265	410,152	336,975	206,501

By Order of the Board

Kang Shew Meng
Seow Fei San
Secretaries

22 February 2012