A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2012

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 first quarter ended 30 September 2012 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 2012 and the accompanying explanatory notes attached to the interim financial statements.

b) Changes in accounting policies

There are no changes in accounting policies for the quarter ended 30 September 2012.

c) Basis of consolidation

The Group was formed as a result of the Reorganisation exercise undertaken in 2009 for the purpose of the Company's listing on the main market of the Bursa Malaysia Securities Berhad. The acquisition of 100% equity in Addnice Hong Kong by Xingquan International pursuant to the Reorganisation exercise under common control has been accounted for using the pooling-of-interests method of consolidation. Under the pooling-of-interest method, the consolidated financial statements of the Group have been presented as if the Group structure immediately after the reorganization has been in existence since the earliest financial year presented. The assets and liabilities were brought into the consolidated statement of financial position at their existing carrying amounts. The pooling-of-interest method will continue to be used for the entities in existence up to the Group's Reorganisation exercise.

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 or in which control ceases, respectively.

Business combination is 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.

Any 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 represents goodwill. The goodwill is accounted for in accordance with the accounting policy for goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised in profit and loss on the date of acquisition.

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

d) Functional currency and translation to presentation currency

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Company is Malaysia Ringgit. The financial statements are presented in Renminbi instead of Malaysia Ringgit as the primary economic environment in which the Group operates is the People's Republic of China.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the financial position date are recognised in profit or loss, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Non-monetary items that are measured in term of historical cost in a foreign currency are translated using the exchange rates at the date of the translation.

(iii) Group companies

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

(1) Assets and liabilities are translated at the closing rate at the reporting date;

(2) Income and expenses 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 2012 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) <u>Operating segments</u>

3 months ended 30 September 2012

	Shoe soles	Casual Footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	99,603	129,746	179,966	-	409,315
Inter-segment revenue	16,944	-	-	(16,944)	-
	116,547	129,746	179,966	(16,944)	409,315
Results					
Segment results	32,607	50,746	59,128	-	141,481
Other income					682
Selling and distribution expenses					(40,939)
Administrative expenses					(8,113)
Finance costs					(503)
Profit before taxation					92,608
Income tax expenses					(16,953)
Profit after taxation					75,655
Other information					
Segment assets	158,571	198,544	280,327	-	637,442
Unallocated assets					
- Land use rights					13,485
- Other receivables					114,104
- Cash and bank					699,101
Total assets					1,464,132

Segment liabilities	30,299	13,090	18,157	-	61,546
Unallocated liabilities					
- Borrowing					30,000
- Other payables					64,892
- Current tax payable					16,953
- Deferred tax liability					3,550
Total liabilities					176,941
Capital expenditure	5,517	-	-		5,517
Depreciation of property, plant and equipment	2,743	1,436	1,991		6,170
Amortisation of land use	-	-	-		70

3 months ended 30 September 2011

	Shoe soles	Casual footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	103,666	157,588	164,045	-	426,299
Inter-segment revenue	23,138	-	-	(23,138)	-
	126,804	157,588	164,045	(23,138)	426,299
Results					
Segment results	32,823	55,026	48,342	-	136,191
Other income					5,245
Selling and distribution expenses					(41,884)
Administrative expenses					(9,552)
Finance costs					(809)
Profit before taxation					89,191
Income tax expenses					(16,285)
Profit after taxation					72,906
Other information					
Segment assets	143,420	258,117	257,014	(11,267)	647,284
Unallocated assets					
- Land use rights					13,767
- Other receivables					153,591
- Cash and bank					399,776
Total assets					1,214,418
Segment liabilities	24,680	21,149	10,349	(11,267)	44,911
Unallocated liabilities					
- Borrowing					38,000
- Other payables					72,783
- Current tax payable					16,285
- Deferred tax liability					3,550
Total liabilities					175,529
Capital expenditure	1,724	312	327		2,363
Depreciation of property, plant and equipment	2,666	1,647	1,724		6,037
Amortisation of land use rights	-	-	-		71

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 2012.

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 2012.

A13. Capital commitments

	RMB 000
Authorised capital expenditure not provided for in the financial statements as at 30 September 2012 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 profits after taxation prepared in accordance with the accounting regulation in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

Merger reserve

The merger reserve arises from the difference between the nominal value of shares issued by the Company and the nominal value of shares of subsidiaries acquired under the pooling of interests method of accounting

Foreign currency translation reserve

Foreign currency translation reserve arises from the translation of the financial statements of foreign entities with functional currencies different from the presentation currency of the Group.

Share premium

The share premium represents the excess of issue price over the par value of the shares issued, net of share issue expenses.

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 profit before tax ("PBT") of RMB409.3 million and RMB92.6 million respectively for the 3 months financial period ended 30 September 2012 ("FPE 2013"). The revenue of RMB409.3 million represents a decrease of 4.0% as compared to the revenue of RMB426.3 million recorded for the 3 months financial period ended 30 September 2012 ("FPE2012").

The decrease in revenue is contributed by the following:

(i) Decrease in sales volume of shoe and accessories from approximately 1.5 million pairs and 0.5 million pieces respectively in FPE2012 to approximately 1.0 million pairs and 0.4 million pieces respectively in FPE2013.

(ii) However, the decrease is mitigated by increase in average selling price of apparel from RMB102.0 per piece in FPE2012 to RMB117.5 per piece in FPE2013. The substantial increase in the selling price of apparel 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 RMB92.6 million for FPE2013 represents an increase of 3.8% as compared to the PBT of RMB89.2 million recorded for FPE2012. The increase in PBT was mainly due to the increase in average selling price of apparels as mentioned above.

The slight decrease in selling and distribution expenses from RMB41.9 million in FPE2012 to RMB40.9 million in FPE2013 is mainly due to lower expenses in relation to renovation subsidies for the sales outlets amounting to RMB14.0 million, display shelf for the sales outlets amounting to RMB7.6 million and expansion of sales network expenses amounting to RMB12.4 million.

The profit after taxation ("PAT") of RMB75.7 million for FPE2013 represents a increase of 3.9% as compared to PAT of RMB72.9 million recorded for FPE2012 due to higher PBT.

The effective tax rate remains at 18.3% for both FPE2012 and FPE2013.

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 FPE2013 as compared to FPE2012 is analysed as follows:

Shoe sole – The decrease in revenue from RMB103.7 million in FPE2012 to RMB99.6 million in FPE2013 was mainly due to decrease in average selling price from RMB18.0 per piece in FPE2012 to RMB17.4 per piece in FPE2013.

Shoe – The decrease in revenue from RMB157.6 million in FPE2012 to RMB129.7 million in FPE2013 was mainly due to decrease in sales volume from 1.5 million pairs in FYP2012 to 1.0 million pairs in FPE2013.

Apparel & accessories - The increase in revenue from RMB164.0 million in FYP2012 to RMB180.0 million in FPE2012 was mainly due to increase in average selling price of apparel from RMB102.0 per piece in FPE2012 to RMB117.5 per piece in FPE2013.

b) Current Quarter vs. Previous Year Corresponding Quarter

Please refer to the commentary in **B1 (a)** above.

B2. Variation of results against immediate preceding quarter

	Current quarter 30 September 2012 RMB 000	**Preceding quarter 30 June 2012 RMB 000**
Revenue	409,315	374,777
Profit before taxation	92,608	51,461

The Group recorded revenue of RMB409.3 million for Q1FY2013, representing an increase of 9.2% as compared to the revenue of RMB374.8 million recorded for the quarter ended 30 June 2012 ("Q4FY2012"). The increase in revenue was due to an increase in average selling price of apparel.

The profit before taxation of RMB51.5 million for Q4FY2012 represents an increase of 80.0% as compared to the profit before taxation of RMB92.6 million recorded for Q3FY2012. This was mainly due to due to an increase in average selling price of apparel.

B3. Prospects for FYE 2013

Based on market research conducted by Converging Knowledge Pte Ltd, the outdoor casual wear market is expected to see growth of 30% for 2012, thereafter slowing down to 20% in 2013. On this basis, the market is expected to reach 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 2013 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	6,170	6,170
Amortisation of land use rights	70	70
Interest expenses	503	503
Interest income	(614)	(614)

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 RMB 000	Current year to date RMB 000
PRC income tax	16,953	16,953

The effective income tax rate of the Group for the current quarter and current year to date were 18.3% 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 30 September 2012 were as follows:

	Total RMB 000
Short term bank loans – secured	30,000

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	
	30.9.2012 RMB	30.9.2011 RMB	30.9.2012 RM	30.9.2011 RM
Net profit attributable to equity holders of the Company	75,590,000	70,212,000	36,786,000	34,170,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.25	0.23	0.12	0.11

	Cumulative Quarter 3 Months Ended		Cumulative Quarter 3 Months Ended	
	30.9.2012 RMB	30.9.2011 RMB	30.9.2012 RM	30.9.2011 RM
Profit attributable to equity holders of the Company before other comprehensive income	75,590,000	70,212,000	36,786,000	34,170,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.25	0.23	0.12	0.11

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

	Cumulative Quarter		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	30.9.2012	30.9.2011	30.9.2012	30.9.2011
	RMB 000	RMB 000	RM 000	RM 000
Total Retained Profit/(Loss)				
Realised	839,685	617,573	408,646	300,573
Unrealised	(4,443)	(2,391)	(2,162)	(1,164)
	835,242	615,182	406,484	299,409

By Order of the Board

Kang Shew Meng
Seow Fei San
Secretaries

16 November 2012