A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2013

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 2013 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 2013 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 financial period ended 31 December 2013.

c) Basis of consolidation

The financial statements of the Group include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Information on its subsidiaries is disclosed in Note 6.

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 Holdings Limited by Xingquan International Sports Holdings Limited 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 reorganisation 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 next 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 non-controlling 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 entities

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:-

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

(b) 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

(c) 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 2013 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 2013				
	Shoe soles	Casual Footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	101,462	165,998	300,385	-	567,845
Inter-segment revenue	10,329	20,423	20,425	(51,177)	-
	111,791	186,421	320,810	(51,177)	567,845
Results					
Segment results	25,454	56,805	118,175		200,434
Other income					10,341
Selling and distribution expenses					(53,363)
Administrative expenses					(22,471)
Finance costs					(462)
Profit before taxation					134,479
Income tax expenses					(33,041)
Profit after taxation					101,438
Other information					
Segment assets	148,300	171,959	305,095		625,354
Unallocated assets					
- Land use rights					13,131
- Other receivables					89,721
- Cash and bank					969,215
Total assets					1,697,421
Segment liabilities	11,664	8,519	14,660		34,843
Unallocated liabilities					
- Borrowing					14,700
- Other payables					42,576
- Current tax payable					14,756
- Deferred tax liability					3,157
Total liabilities					110,032
Capital expenditure	2,579				2,579
Depreciation of property, plant and equipment	6,730	2,801	4,821		14,352
Amortisation of land use					141

	6 months ended 31 December 2012				
		Casual	Apparels and		
	Shoe soles	footwear	Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	177,486	269,928	376,063	-	823,477
Inter-segment revenue	32,429	-	6,105	(38,534)	-
	209,915	269,928	382,168	(38,534)	823,477
Results					
Segment results	55,041	108,614	122,864		286,519
Other income					1,628
Selling and distribution expenses					(86,593)
Administrative expenses					(20,503)
Finance costs					(864)
Profit before taxation					180,187
Income tax expenses					(31,560)
Profit after taxation					148,627
Other information					
Segment assets	159,069	218,089	301,133		678,291
Unallocated assets					
- Land use rights					13,414
- Other receivables					105,391
- Cash and bank					730,768
Total assets					1,527,864
Segment liabilities	23,860	15,247	21,587		60,694
Unallocated liabilities					
- Borrowing					20,000
- Other payables					69,624
- Current tax payable					14,714
- Deferred tax liability					3,550
Total liabilities					168,582
Capital expenditure	14,798	303	428		15,529
Depreciation of property, plant and equipment	5,508	2,915	4,086		12,509
Amortisation of land use rights					141

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 2013.

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 2013.

A13. Capital commitments

	RMB 000
Authorised capital expenditure not provided for in the financial statements as at 31 December 2013 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 period 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 RMB567.8 million and RMB134.5 million respectively for the 6 months financial period ended 31 December 2013 ("FPE 2014"). The revenue of RMB567.8 million represents a decrease of 31.0% as compared to the revenue of RMB823.5 million recorded for the 6 months financial period ended 31 December 2012 ("FPE2013").

The decrease in revenue is contributed by the following:

(i) Decrease in sales volume of shoe sole from approximately 10.0 million pairs in FPE2013 to approximately 6.1 million pairs in FPE2014.

(ii) However, the decrease is mitigated by increase in average selling price of apparel from and RMB104.9 per piece in FPE2013 to RMB191.0 per piece in FPE2014. 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.

The PBT of RMB134.5 million for FPE2014 represents a decrease of 25.4% as compared to the PBT of RMB180.2 million recorded for FPE2013. The decrease in PBT was mainly due to the decrease in overall revenue.

The decrease in selling and distribution expenses from RMB86.6 million in FPE2013 to RMB53.4 million in FPE2014 is mainly due to lower expenses in relation to renovation subsidies for the sales outlets, display shelf for the sales outlets and expansion of sales network expenses.

The profit after taxation ("PAT") of RMB101.4 million for FPE2014 represents a decrease of 31.7% as compared to PAT of RMB148.6 million recorded for FPE2013 due to decrease in overall revenue.

The effective tax rate increases from 17.5% for FPE2013 to 24.6% FPE2014.

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 FPE2014 as compared to FPE2013 is analysed as follows:

Shoe sole – The decrease in revenue from RMB177.5 million in FPE2013 to RMB101.5 million in FPE2014 was mainly due to decrease in sales volume from 10.0 million pairs in FPE2013 to 6.1 million pairs in FPE2014.

Shoe – The decrease in revenue from RMB269.9 million in FPE2013 to RMB166.0 million in FPE2014 was mainly due to decrease in sales volume from approximately 1.9 million pairs in FPE2013 to approximately 0.9 million pairs in FPE2014.

Apparel - The decrease in revenue from RMB376.1 million in FPE2013 to RMB300.4 million in FPE2014 was mainly due to decrease in sales volume of approximately 2.5 million pieces in FPE2013 to approximately 1.5 million pieces in FPE2014.

b) Current Quarter vs. Previous Year Corresponding Quarter

The Group achieved a revenue and profit before taxation ("PBT") of RMB309.1 million and RMB57.3 million respectively for the current quarter ("Q2FY2014"), representing a decrease of 25.4% in revenue and a decrease of 34.6% in PBT as compared to the corresponding period in the preceding year.

The decrease in revenue is contributed by the decrease in sales volume of all our operating segments.

The PBT of RMB57.3 million for Q2FY2014 represents a decrease of 34.6% as compared to the PBT of RMB87.6 million recorded for Q2FY2013. The decrease in PBT was mainly due to sales volume of shoe.

Performance of the respective operating business segments for Q2FY2014 as compared to Q2FY2013 is analysed as follows:

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

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

Apparel - The decrease in revenue was mainly due to decrease in sales volume.

B2. Variation of results against immediate preceding quarter

	Current quarter 31 December 2013 RMB 000	**Preceding quarter 30 September 2013 RMB 000**
Revenue	309,065	258,780
Profit before taxation	57,296	77,183

The Group recorded revenue of RMB309.1 million for Q2FY2014, representing an increase of 19.4% as compared to the revenue of RMB258.8 million recorded for the quarter ended 30 September 2013 ("Q1FY2013"). The increase in revenue was due to an increase in selling price of apparel from RMB177.9 per piece for Q1FY2013 to RMB203.4 per piece for Q2FY2014.

The profit before taxation of RMB57.3 million for Q2FY2014 represents a decrease of 25.8% as compared to the profit before taxation of RMB77.2 million recorded for Q1FY2014. This was mainly due to the increase in selling and distribution expenses.

B3. Prospects for FYE 2014

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 2014 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	6,979	14,352
Amortisation of land use rights	71	141
Interest expenses	223	448
Interest income	(857)	(1,611)
Unrealised gain on foreign exchange differences	(2,199)	(8,648)

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	14,757	33,041

The effective income tax rate of the Group for the current quarter and current year to date was 24.6% as compared to the applicable tax rate of 25%. The slight decrease is due to recognising non-taxable income by the Group in this quarter.

B7. Group borrowings

The Group's borrowings as at 31 December 2013 were as follows:

	Total RMB 000
Short term bank loans – secured	14,700

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 by weighted average number of ordinary shares in issue during the period:-

	Individual Quarter Ended		Individual Quarter Ended	
	31.12.2013 RMB	31.12.2012 RMB	31.12.2013 RM	31.12.2012 RM
Profit after tax	42,539,000	72,972,000	23,040,000	39,521,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.14	0.24	0.07	0.13

	Cumulative Quarter 6 Months Ended		Cumulative Quarter 6 Months Ended	
	31.12.2013 RMB	31.12.2012 RMB	31.12.2013 RM	31.12.2012 RM
Profit after tax	101,438,000	148,627,000	54,940,000	80,497,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.33	0.48	0.18	0.26

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 6 Months Ended		Cumulative Quarter 6 Months Ended	
	31.12.2013 RMB 000	31.12.2012 RMB 000	31.12.2013 RM 000	31.12.2012 RM 000
Total Retained Profit/(Loss)				
Realised	1,109,490	911,847	600,899	493,856
Unrealised	(28,407)	(3,633)	(15,384)	(1,968)
	1,081,083	908,214	585,515	491,888

By Order of the Board

Kang Shew Meng
Seow Fei San
Secretaries

27 February 2014