

A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2014

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 third quarter ended 31 March 2014 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 March 2014.

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

Save for the issuance of 30,733,000 ordinary shares of USD0.10 each ("Shares"), which was listed on Bursa Malaysia on 16 May 2014, 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

	9 months ended 31 March 2014				
	Shoe soles	Casual Footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	154,909	259,060	490,117		904,086
Inter-segment revenue	16,292	32,849	31,530	(80,671)	-
	171,201	291,909	521,647	(80,671)	904,086
Results					
Segment results	41,735	87,813	186,496		316,044
Other income					9,759
Selling and distribution expenses					(76,290)
Administrative expenses					(42,505)
Finance costs					(723)
Profit before taxation					206,285
Income tax expenses					(52,738)
Profit after taxation					153,547
Other information					
Segment assets	133,158	190,617	340,673		664,448
Unallocated assets					
- Land use rights					13,061
- Other receivables					4,796
- Cash and bank					1,072,842
Total assets					1,755,147
Segment liabilities	12,722	6,788	12,129		31,639
Unallocated liabilities					
- Borrowing					18,000
- Other payables					40,844
- Current tax payable					19,657
- Deferred tax liability					3,241
Total liabilities					113,381
Capital expenditure	2,809				2,809
Depreciation of property, plant and equipment	9,139	4,100	7,326		20,565
Amortisation of land use					211

9 months ended 31 March 2013

	Shoe soles	Casual footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	246,674	402,696	632,606	-	1,281,976
Inter-segment revenue	47,882	-	18,593	(66,475)	-
	294,556	402,696	651,199	(66,475)	1,281,976
Results					
Segment results	74,389	165,423	214,299		454,111
Other income					3,545
Selling and distribution expenses					(113,606)
Administrative expenses					(72,521)
Finance costs					(1,123)
Profit before taxation					270,406
Income tax expenses					(65,258)
Profit after taxation					205,148
Other information					
Segment assets	136,233	215,722	316,069		668,024
Unallocated assets					
- Land use rights					13,343
- Other receivables					109,380
- Cash and bank					824,334
Total assets					1,615,081
Segment liabilities	21,010	11,055	17,877		49,942
Unallocated liabilities					
- Borrowing					14,700
- Other payables					69,140
- Current tax payable					33,698
- Deferred tax liability					3,550
Total liabilities					171,030
Capital expenditure	16,555	303	428		17,286
Depreciation of property, plant and equipment	7,676	4,266	6,992		18,934
Amortisation of land use rights					212

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 save for the below:

- (i) Proposed bonus issue of up to 169,031,500 warrants on the basis of one (1) warrant for every two (2) Xingquan Shares held on the entitlement date; and
- (ii) Proposed increase in the authorised share capital of Xingquan from US\$50,000,000 comprising 500,000,000 Shares to US\$100,000,000 comprising 1,000,000,000 Shares.

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

Authorised capital expenditure not provided for in the financial statements as at 31 March 2014 are as follows:

- contracted	RMB 000 <u>37,800</u>
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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 save for the below:

The Company had incorporated a new wholly owned subsidiary in Budapest, Hungary on 28 October 2013, Gertop Europa International Ltd ("GEIL"). GEIL has a paid up capital of HUF6,000,000 (approximately equivalent to RM86,857 based on the exchange rate of RM1:HUF69) and the intended principal activity of GEIL is wholesale trade of clothes and footwear.

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 RMB904.1 million and RMB206.3 million respectively for the 9 months financial period ended 31 March 2014 ("FPE 2014"). The revenue of RMB904.1 million represents a decrease of 29.5% as compared to the revenue of RMB1,282.0 million recorded for the 9 months financial period ended 31 March 2013 ("FPE2013").

The decrease in revenue is contributed by the following:

- (i) Decrease in sales volume of shoe sole from approximately 13.7 million pairs in FPE2013 to approximately 9.5 million pairs in FPE2014.
- (ii) However, the decrease is mitigated by increase in average selling price of apparel from and RMB157.3 per piece in FPE2013 to RMB183.3 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 RMB206.3 million for FPE2014 represents a decrease of 23.7% as compared to the PBT of RMB270.4 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 RMB113.6 million in FPE2013 to RMB76.3 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 RMB153.5 million for FPE2014 represents a decrease of 25.2% as compared to PAT of RMB205.2 million recorded for FPE2013 due to decrease in overall revenue.

The effective tax rate increases from 24.1% for FPE2013 to 25.6% FPE2014.

Performance of the respective operating business segments for FPE2014 as compared to FPE2013 is analysed as follows:

Shoe sole – The decrease in revenue from RMB246.7 million in FPE2013 to RMB154.9 million in FPE2014 was mainly due to decrease in sales volume from 13.7 million pairs in FPE2013 to 9.5 million pairs in FPE2014.

Shoe – The decrease in revenue from RMB402.7 million in FPE2013 to RMB259.1 million in FPE2014 was mainly due to decrease in sales volume from approximately 2.7 million pairs in FPE2013 to approximately 1.4 million pairs in FPE2014.

Apparel - The decrease in revenue from RMB632.6 million in FPE2013 to RMB490.1 million in FPE2014 was mainly due to decrease in sales volume of approximately 3.8 million pieces in FPE2013 to approximately 2.6 million pieces in FPE2014.

b) Current Quarter vs. Previous Year Corresponding Quarter

The Group achieved a revenue and profit before taxation ("PBT") of RMB336.2 million and RMB71.8 million respectively for the current quarter ("Q3FY2014"), representing a decrease of 26.7% in revenue and a decrease of 20.4% 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 shoe and apparel from 0.8 million pairs and 1.6 million piece in Q3FY2013 to 0.5 million pairs and 1.0 million piece in Q3FY2014.

The PBT of RMB71.8 million for Q3FY2014 represents a decrease of 20.4% as compared to the PBT of RMB90.2 million recorded for Q3FY2013. The decrease in PBT was mainly due to the decrease in revenue.

Performance of the respective operating business segments for Q3FY2014 as compared to Q3FY2013 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 March 2014 RMB 000	Preceding quarter 31 December 2013 RMB 000
Revenue	336,241	309,065
Profit before taxation	71,806	57,296

The Group recorded revenue of RMB336.2 million for Q3FY2014, representing an increase of 8.8% as compared to the revenue of RMB309.1 million recorded for the quarter ended 31 December 2014 ("Q2FY2014"). The increase in revenue was due to an increase in sales volume of apparel from 0.8 million piece for Q2FY2014 to 1.0 million piece for Q3FY2014.

The profit before taxation of RMB71.8 million for Q3FY2014 represents an increase of 25.3% as compared to the profit before taxation of RMB57.3 million recorded for Q2FY2014. This was mainly due to the decrease 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
Write off of property, plant and equipment	12,037	12,043
Depreciation of property, plant and equipment	6,213	20,565
Amortisation of land use rights	71	212
Interest expenses	261	709
Interest income	(865)	(2,476)
Unrealised gain on foreign exchange differences	1,447	(7,201)

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	19,697	52,738

The effective income tax rates of the Group for the current quarter and current year to date were 27.4% and 25.6% respectively as compared to the applicable tax rate of 25%. The slight increase is due to the expenses incurred by the listed holding company is not tax deductible.

B7. Group borrowings

The Group's borrowings as at 31 March 2014 were as follows:

	Total RMB 000
Short term bank loans – secured	<u>18,000</u>

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	
	31.03.2014 RMB	31.03.2013 RMB	31.03.2014 RM	31.03.2013 RM
Profit after tax	52,109,000	56,521,000	27,300,000	29,611,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.17	0.18	0.09	0.10

	Cumulative Quarter 9 Months Ended		Cumulative Quarter 9 Months Ended	
	31.03.2014 RMB	31.03.2013 RMB	31.03.2014 RM	31.03.2013 RM
Profit after tax	153,547,000	205,148,000	80,446,000	107,480,000
Weighted average number of ordinary shares in issue	307,330,000	307,330,000	307,330,000	307,330,000
Basic earnings per share	0.50	0.67	0.26	0.35

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 9 Months Ended		Cumulative Quarter 9 Months Ended	
	31.03.2014 RMB 000	31.03.2013 RMB 000	31.03.2014 RM 000	31.03.2013 RM 000
Total Retained Profit/(Loss)				
Realised	1,150,316	943,135	602,669	494,124
Unrealised	(24,608)	(2,851)	(12,892)	(1,494)
	1,125,708	940,284	589,777	492,630

By Order of the Board

Kang Shew Meng
Seow Fei San
Secretaries

26 May 2014