

A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 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 second quarter ended 31 December 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 2014 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 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 2014 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 period under review.

A8. Segment information

a) Operating segments

	6 months ended 31 December 2014				
	Shoe soles	Casual Footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	113,597	212,328	381,500		707,425
Inter-segment revenue	9,652	24,232	24,094	(57,978)	-
	123,249	236,560	405,594	(57,978)	707,425
Results					
Segment results	32,043	72,836	150,114	-	254,993
Other income					27,015
Selling and distribution expenses					(69,564)
Administrative expenses					(22,783)
Finance costs					(556)
Profit before taxation					189,105
Income tax expenses					(42,969)
Profit after taxation					146,136
Other information					
Segment assets	153,226	178,240	320,250	(7,000)	644,716
Unallocated assets					
- Land use rights					12,849
- Other receivables					90,096
- Cash and bank					1,246,809
Total assets					1,994,470
Segment liabilities	13,540	13,696	24,609	-	51,845
Unallocated liabilities					
- Borrowing					18,000
- Other payables					51,040
- Current tax payable					21,043
- Dividends					11,917
- Deferred tax liability					3,191
Total liabilities					157,036
Capital expenditure	24,065	180			24,245
Depreciation of property, plant and equipment	4,570	2,771	4,980		12,321
Property, plant and equipment written off	789	220	359		1,368
Amortisation of land use					141

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 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.

A9. 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 2014.

A10. Corporate proposals

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

A11. Contingent liabilities

There were no material changes in the contingent liabilities or contingent assets since the last financial year ended 30 June 2014.

A12. Capital commitments

There were no authorised capital expenditures contracted but not provided for in the financial statements as at 31 December 2014.

A13. Changes in the composition of the Group

The company has incorporated a new wholly owned subsidiary in Bermuda on 10 July 2014, Gertop International Holdings Limited ("GHIL"). GHIL has an authorised capital of AUD\$10,000.00 (equivalent to RM29,800.00) divided into shares of AUD\$0.01 each and a paid up capital of AUD\$0.01 (equivalent to RM0.029).

Save for the above, there are no other changes in the composition of the Group during the financial period to-date.

A14. 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.

A15. 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 RMB707.4 million and RMB189.1 million respectively for the 6 months financial year ended 31 December 2014 ("FPE2015"). The revenue of RMB707.4 million represents an increase of 24.6% as compared to the revenue of RMB567.8 million recorded for the 6 months financial period ended 31 December 2013 ("FPE2014").

The increase in revenue is contributed by the following:

- (i) Increase in sales volume of shoe, shoe sole, apparels and accessories in FPE2015.
- (ii) Increase in average selling price of apparel from RMB191.0 per piece in FPE2014 to RMB202.0 per piece in FPE2015. The increase in the selling price of apparel is due to the success of the GERTOP brand which is in the outdoor casual wear segment compared to the previous outdoor sports wear.

The PBT of RMB189.1 million for FPE2015 represents an increase of 40.6% as compared to the PBT of RMB134.5 million recorded for FPE2014. The increase in PBT was mainly due to the increase in overall revenue.

The increase in selling and distribution expenses from RMB53.4 million in FPE2014 to RMB69.6 million in FPE2015 is mainly due to higher 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 RMB146.1 million for FPE2015 represents an increase of 44.1% as compared to PAT of RMB101.4 million recorded for FPE2014 due to increase in overall revenue.

The effective tax rate decreases from 24.6% for FPE2014 to 22.7% FPE2015 due to the unrealised gain on foreign exchange difference is not subject to income tax.

Performance of the respective operating business segments for FPE2015 as compared to FPE2014 is analysed as follows:

Shoe sole – The increase in revenue from RMB101.5 million for FPE2014 to RMB113.6 million for FPE2015 was mainly due to increase in sales volume from 6.1 million pairs for FPE2014 to 7.1 million pairs for FPE2015.

Shoe – The increase in revenue from RMB166.0 million for FPE2014 to RMB212.3 million for FPE2015 was mainly due to increase in sales volume from approximately 0.9 million pairs for FPE2014 to approximately 1.2 million pairs for FPE2015.

Apparel - The increase in revenue from RMB287.7 million for FPE2014 to RMB366.1 million for FPE2015 was mainly due to increase in sales volume from approximately 1.5 million pieces for FPE2014 to approximately 1.8 million pieces for FPE2015.

b) Current Quarter vs. Previous Year Corresponding Quarter

The Group achieved a revenue and profit before taxation (“PBT”) of RMB385.6 million and RMB97.4 million respectively for the current quarter (“Q2FY2015”), representing increase of 24.8% and 70.0% in revenue and PBT respectively as compared to the corresponding period in the preceding year.

The increase in revenue is contributed by the increase in sales volume of shoe, shoe sole, apparels and accessories in Q2FY2015.

The PBT of RMB97.4 million for Q2FY2015 represents an increase of 70.0% as compared to the PBT of RMB57.3 million recorded for Q2FY2014. The increase in PBT was mainly due to the increase in revenue.

Performance of the respective operating business segments for Q2FY2015 as compared to Q2FY2014 is analysed as follows:

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

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

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

B2. Variation of results against immediate preceding quarter

	Current quarter 31 December 2014 RMB 000	Preceding quarter 30 September 2014 RMB 000
Revenue	385,618	321,807
Profit before taxation	97,399	91,706

The Group recorded revenue of RMB385.6 million for Q2FY2015, representing an increase of 19.8% as compared to the revenue of RMB321.8 million recorded for the quarter ended 30 September 2014 (“Q1FY2015”). The increase in revenue was due to an increase in sales volume of apparel from 0.8 million pieces for Q1FY2015 to 1.0 million pieces for Q2FY2015.

The profit before taxation of RMB97.4 million for Q2FY2015 represents an increase of 6.2% as compared to the profit before taxation of RMB91.7 million recorded for Q1FY2015. This was mainly due to the increase in overall revenue.

B3. Prospects for FYE 2015

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. Nevertheless, our Board of Directors believes that the Group’s prospects for the financial year ending 30 June 2015 should remain positive as the Group will continue to open more self operated point of sales in mid to high end department stores in China.

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	Current year to date
	RMB 000	RMB 000
Write off of property, plant and equipment	-	1,368
Depreciation of property, plant and equipment	6,324	12,321
Amortisation of land use rights	70	141
Interest expenses	273	549
Interest income	(1,094)	(2,163)
Unrealised gain on foreign exchange differences	(17,338)	(24,188)

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
PRC income tax	21,044	42,969

The effective income tax rate of the Group for the current quarter was 21.6% and current year to date was 22.7% as compared to the applicable tax rate of 25%. It is below the applicable tax rate because the unrealised gain on foreign exchange difference is not subject to income tax.

B7. Status of Issuance of issuance of 30,733,000 ordinary shares

Purpose	Intended Timeframe	Proposed Utilisation (RM'000)	Actual Utilisation (RM'000)
Business Expansion	Within 18 months	30,233	8,756
Estimated expense for the proposal	Within 1 month	500	500
Total		<u>30,733</u>	<u>9,256</u>

B8. Group borrowings

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

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

B9. 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.

B10. Dividend

A tax exempt interim dividend of RM0.02 per ordinary share for the financial year ending 30 June 2015 has been declared on 26 December 2014 and be paid on 25 March 2015 to the shareholders of the Company who are on the Company's Register of Members on 2 March 2015.

B11. 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	
	31.12.2014 RMB	31.12.2013 RMB	31.12.2014 RM	31.12.2013 RM
Profit after tax	76,355,000	42,539,000	41,323,000	23,022,000
Weighted average number of ordinary shares in issue	338,063,000	307,330,000	338,063,000	307,330,000
Basic earnings per share	0.23	0.14	0.12	0.07
	Cumulative Quarter 6 Months Ended		Cumulative Quarter 6 Months Ended	
	31.12.2014 RMB	31.12.2013 RMB	31.12.2014 RM	31.12.2013 RM
Profit after tax	146,136,000	101,438,000	79,089,000	54,899,000
Weighted average number of ordinary shares in issue	338,063,000	307,330,000	338,063,000	307,330,000
Basic earnings per share	0.43	0.33	0.23	0.18

b) Diluted

As of 31 December 2014, the Group has 169,031,500 of warrant in issue, which entitles the holders the rights for conversion into one (1) ordinary share for every one (1) warrant at an exercise price of RM1.00 each. This gives rise to potential ordinary shares which, upon conversion, could result in dilution to earnings per share in future financial periods.

In accordance with MFRS 133, options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options and warrants (i.e. they are 'in the money').

The volume-weighted average market price of the Company's ordinary shares during September 2014 was slightly lower than the warrant exercise price. As such, the issued warrants are not regarded as dilutive and accordingly, no diluted earnings per share is being presented for the current quarter under review. Relevant disclosure and information, where applicable, would be made in future interim financial reports and annual financial statements.

B12. Realised and unrealised profits

	Cumulative Quarter		Cumulative Quarter	
	6 Months Ended		6 Months Ended	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	RMB 000	RMB 000	RM 000	RM 000
Total Retained Profit/(Loss)				
Realised	1,322,123	1,109,490	750,171	629,498
Unrealised	(57,331)	(28,407)	(32,528)	(16,117)
	<u>1,264,792</u>	<u>1,081,083</u>	<u>717,643</u>	<u>613,381</u>
Consolidation adjustments	9,288	-	5,270	-
	<u><u>1,274,080</u></u>	<u><u>1,081,083</u></u>	<u><u>722,913</u></u>	<u><u>613,381</u></u>

By Order of the Board

Kang Shew Meng
Seow Fei San
Secretaries

13 February 2015