

A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

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 2015 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 2015 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 30 September 2015.

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 2015 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

	3 months ended 30 September 2015				
	Shoe soles	Casual Footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	47,036	47,566	120,050		214,652
Inter-segment revenue	3,768	9,414	10,837	(24,019)	-
	50,804	56,980	130,887	(24,019)	214,652
Results					
Segment results	11,698	14,627	44,980	-	71,305
Other income					26,511
Selling and distribution expenses					(48,957)
Administrative expenses					(7,860)
Finance costs					(259)
Profit before taxation					40,740
Income tax expenses					(4,642)
Profit after taxation					36,098
Other information					
Segment assets	139,333	99,555	251,262	(5,000)	485,150
Unallocated assets					
- Land use rights					12,637
- Other receivables					61,450
- Cash and bank					1,455,284
Total assets					2,014,521
Segment liabilities	9,822	4,218	10,647	-	24,687
Unallocated liabilities					
- Borrowing					18,000
- Other payables					31,110
- Current tax payable					4,642
- Deferred tax liability					3,319
Total liabilities					81,758
Depreciation of property, plant and equipment	2,287	1,106	2,790		6,183
Amortisation of land use rights					71

3 months ended 30 September 2014

	Shoe soles	Casual Footwear	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	56,225	100,936	164,646		321,807
Inter-segment revenue	4,758	11,153	10,555	(26,466)	-
	60,983	112,089	175,201	(26,466)	321,807
Results					
Segment results	15,545	34,997	62,562	-	113,104
Other income					8,138
Selling and distribution expenses					(20,111)
Administrative expenses					(9,145)
Finance costs					(280)
Profit before taxation					91,706
Income tax expenses					(21,925)
Profit after taxation					69,781
Other information					
Segment assets	151,020	167,156	272,662	(7,000)	583,838
Unallocated assets					
- Land use rights					12,919
- Other receivables					76,397
- Cash and bank					1,239,875
Total assets					1,913,029
Segment liabilities	12,218	9,551	15,580	-	37,349
Unallocated liabilities					
- Borrowing					18,000
- Other payables					42,302
- Current tax payable					21,918
- Deferred tax liability					3,197
Total liabilities					122,766
Capital expenditure	24,065	180			24,245
Depreciation of property, plant and equipment	2,119	1,474	2,404		5,997
Property, plant and equipment written off	789	220	359		1,368
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.

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 2015.

A10. Corporate proposals

On 25th September 2015, The company announced to to undertake the following corporate proposals:-

- Proposed reorganisation of the share capital of the Company which involves, among other things, the reduction of the issued and paid-up share capital of Xingquan via the cancellation of United States Dollar ("US\$") 0.09 on each of the existing ordinary issued and paid-up shares of US\$0.10 in Xingquan pursuant to Section 46 of the Companies Act 1981 of Bermuda ("Act") (the "Proposed Par Value Reduction"), to be effective on such date as may be determined by the Board ("Par Value Reduction Effective Date") ("Proposed Capital Reorganisation"); and
- Proposed renounceable rights issue of up to 253,547,250 new ordinary shares of US\$0.01 in the Company ("Rights Shares") on the basis of one (1) Rights Share for every two (2) existing shares held in Xingquan after the Proposed Par Value Reduction Effective Date, together with up to 84,515,750 free detachable warrants ("Warrant(s) B") on the basis of one (1) Warrant B for every three (3) Rights Shares subscribed, on an entitlement date to be determined later by the Board ("Entitlement Date") ("Proposed Rights Issue with Warrants").

Save for the above, 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 2015.

A12. Capital commitments

There were no authorised capital expenditures contracted but not provided for in the financial statements as at 30 September 2015.

A13. Changes in the composition of the Group

There are no 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 RMB214.7 million and RMB40.7 million respectively for the 3 months financial period ended 30 September 2015 ("FPE2016"). The revenue of RMB214.7 million represents a decrease of 33.3% as compared to the revenue of RMB321.8 million recorded for the 3 months financial period ended 30 September 2014 ("FPE2015").

The decrease in revenue is contributed by the following:

- (i) Decrease in sales volume of shoes from 0.60 million in FPE2015 to 0.28 million in FPE2016.
- (ii) Decrease in sales volume of apparels from 0.84 million in FPE2015 to 0.60 million in FPE2016.

The PBT of RMB40.7 million for FPE2016 represents a decrease of 55.6% as compared to the PBT of RMB91.7 million recorded for FPE2015. The decrease in PBT was mainly due to the decrease in overall revenue and increase in selling and distribution expenses.

The increase in selling and distribution expenses from RMB20.1 million in FPE2015 to RMB49.0 million in FPE2016 is mainly due to higher expenses in relation to display shelf for the sales outlets and renovation costs.

The profit after taxation ("PAT") of RMB36.1 million for FPE2016 represents a decrease of 48.3% as compared to PAT of RMB69.8 million recorded for FPE2015 due to decrease in overall revenue and increase in selling and distribution expenses.

The effective tax rate decreases from 23.9% for FPE2015 to 11.4% FPE2016 due to the unrealised gain on foreign exchange difference is not subject to income tax.

Performance of the respective operating business segments for FPE2016 as compared to FPE2015 is analysed as follows:

Shoe soles – The decrease in revenue from RMB56.2 million for FPE2015 to RMB47.0 million for FPE2016 was mainly due to decrease in sales volume from 3.5 million pairs for FPE2015 to 3.1 million pairs for FPE2016.

Shoes – The decrease in revenue from RMB100.9 million for FPE2015 to RMB47.6 million for FPE2016 was mainly due to decrease in sales volume from 0.6 million pairs for FPE2015 to 0.28 million pairs for FPE2016.

Apparels - The decrease in revenue from RMB156.5 million for FPE2015 to RMB115.9 million for FPE2016 was mainly due to decrease in in sales volume from 0.84 million pairs for FPE2015 to 0.60 million pairs for FPE2016.

b) Current Quarter vs. Previous Year Corresponding Quarter

Please refer to **B1 a)** above.

B2. Variation of results against immediate preceding quarter

	Current quarter 30 September 2015 RMB 000	Preceding quarter 30 June 2015 RMB 000
Revenue	214,652	260,560
Profit before taxation	40,740	26,245

The Group recorded revenue of RMB214.7 million for Q1FY2016, representing a decrease of 17.6% as compared to the revenue of RMB260.6 million recorded for the quarter ended 30 June 2015 ("Q4FY2015"). The decrease in revenue was due to decrease in volume for all segments of business.

The profit before taxation of RMB40.7 million for Q1FY2016 represents an increase of 55.2% as compared to the profit before taxation of RMB26.2 million recorded for Q4FY2015. This was mainly due to the increase in unrealised gain on foreign exchange differences.

B3. Prospects for FYE 2016

We are aware that the Chinese 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 2016 should remain positive due to the success of the GERTOP brand which is in the outdoor casual wear segment as well as the market recognition of our shoe sole business.

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
Depreciation of property, plant and equipment	6,183	6,183
Amortisation of land use rights	71	71
Interest expenses	259	259
Interest income	(1,307)	(1,307)
Unrealised gain on foreign exchange differences	(25,410)	(25,410)

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	4,642	4,642

The effective income tax rate of the Group for the current quarter and current year to date was 11.4% as compared to the applicable tax rate of 25%. This is lower than the applicable tax rate because of unrealised gain on foreign exchange differences recorded during the quarter.

B7. Group borrowings

The Group's borrowings as at 30 September 2015 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	
	30.9.2015 RMB	30.9.2014 RMB	30.9.2015 RM	30.9.2014 RM
Profit after tax	36,098,000	69,781,000	22,664,000	43,814,000
Weighted average number of ordinary shares in issue	338,063,000	338,063,000	338,063,000	338,063,000
Basic earnings per share	0.11	0.21	0.07	0.13

	Cumulative Quarter 3 Months Ended		Cumulative Quarter 3 Months Ended	
	30.9.2015 RMB	30.9.2014 RMB	30.9.2015 RM	30.9.2014 RM
Profit after tax	36,098,000	69,781,000	22,664,000	43,814,000
Weighted average number of ordinary shares in issue	338,063,000	338,063,000	338,063,000	338,063,000
Basic earnings per share	0.11	0.21	0.07	0.13

b) Diluted

As of 30 September 2015, 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.

B11. Realised and unrealised profits

	Cumulative Quarter		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RMB 000	RMB 000	RM 000	RM 000
Total Retained Profit/(Loss)				
Realised	1,349,407	1,256,420	877,115	816,673
Unrealised	42,131	(39,993)	(27,385)	(25,995)
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	1,391,538	1,216,427	904,500	790,678
Consolidation adjustments	13,039	(6,786)	8,475	(4,411)
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	<u>1,404,577</u>	<u>1,209,641</u>	<u>912,975</u>	<u>786,267</u>

By Order of the Board

Kang Shew Meng
Seow Fei San
Secretaries

26 November 2015