A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016

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 2016 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 2016 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 2016.

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.

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 2016 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 save for A10.

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 2016				
	Shoe soles	Casual Footwear and its related products	Apparels and Accessories	Eliminated	Total
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
External revenue	63,629	51,324	84,546	-	199,499
Inter-segment revenue	1,517	24,982	-	(26,499)	-
	65,146	76,306	84,546	(26,499)	199,499
Results					
Segment results	9,480	8,841	24,290	-	42,611
Other income					35,539
Selling and distribution expenses					(23,559)
Administrative expenses					(21,554)
Finance costs					(420)
Profit before taxation					32,617
Income tax expenses					(3,866)
Profit after taxation					28,751
Other information					
Segment assets	120,595	82,071	262,501	(5,000)	460,167
Unallocated assets					
- Land use rights					12,282
- Other receivables					18,059
- Cash and bank					1,021,716
Total assets					1,512,224
Segment liabilities	11,178	3,026	9,680	-	23,884
Unallocated liabilities					
- Borrowing					18,000
- Other payables					31,433
- Current tax payable					1,521
- Deferred tax liability					3,618
Total liabilities					78,456
Capital expenditure	88,877	-	-		88,877
Depreciation of property, plant and equipment	4,374	1,822	5,828		12,024
Amortisation of land use rights	-	-	-		141
Loss on disposal of property, plant and equipment	-	-	847		847

	6 months ended 31 December 2015				
	Shoe soles	**Casual Footwear and its related products**	**Apparels and Accessories**	**Eliminated**	**Total**
	RMB 000	**RMB 000**	**RMB 000**	**RMB 000**	**RMB 000**
External revenue	74,933	91,704	282,837		449,474
Inter-segment revenue	43,671	16,547	17,743	(77,961)	-
	118,604	108,251	300,580	(77,961)	449,474
Results					
Segment results	17,274	35,187	90,802	-	143,263
Other income					36,118
Selling and distribution expenses					(64,281)
Administrative expenses					(17,535)
Finance costs					(495)
Profit before taxation					97,070
Income tax expenses					(17,845)
Profit after taxation					79,225
Other information					
Segment assets	155,015	286,694	359,205	(4,000)	796,914
Unallocated assets					
- Land use rights					12,566
- Other receivables					78,118
- Cash and bank					1,234,743
Total assets					2,122,341
Segment liabilities	14,569	22,128	68,247	-	104,944
Unallocated liabilities					
- Borrowing					18,000
- Other payables					15,423
- Current tax payable					13,203
- Deferred tax liability					3,387
Total liabilities					154,957
Capital expenditure	1,788				1,788
Depreciation of property, plant and equipment	4,603	1,908	5,884		12,395
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 2016.

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 2016.

A12. Capital commitments

There were no authorised capital expenditures contracted but not provided for in the financial statements as at 31 December 2016.

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 Period-to-date vs. Previous Financial Period-to-date

The Group achieved a revenue and profit before tax ("PBT") of RMB199.5 million and RMB32.6 million respectively for the 6 months financial period ended 31 December 2016 ("FPE2017"). The revenue of RMB199.5 million represents a decrease of 55.6% as compared to the revenue of RMB449.5 million recorded for the 6 months financial period ended 31 December 2015 ("FPE2016").

The decrease in revenue is contributed by the following:

(i) Decrease in sales volume of shoe from 0.5 million pairs in FPE2016 to 0.3 million pairs in FPE2017.

(ii) Decrease in sales volume of apparels from 1.4 million pieces in FPE2016 to 0.5 million pieces in FPE2017.

The PBT of RMB32.6 million for FPE2017 represents a decrease of 66.4% as compared to the Profit before taxation ("PBT") of RMB97.1 million recorded for FPE2016. The decrease in PBT was mainly due to the decrease in overall revenue.

The decrease in selling and distribution expenses from RMB64.3 million in FPE2016 to RMB23.6 million in FPE2017 is mainly due to lower expenses in relation to market development costs and subsidy of renovation.

The profit after taxation ("PAT") of RMB28.8 million for FPE2017 represents a decrease of 63.7% as compared to PAT of RM79.2 million recorded for FPE2016 due to the reason stated above.

The effective tax rate decreased from 18.4% for FPE2016 to 11.8% for FPE2017 due to higher unrealised gain on foreign exchange differences.

Performance of the respective operating business segments for FPE2017 as compared to FPE2016 is analysed as follows:

Shoe soles – The decrease in revenue from RMB74.9 million for FPE2016 to RMB63.6 million for FPE2017 was mainly due to decrease in production from 5.1 million pairs for FPE2016 to 4.3 million pairs for FPE2017.

Shoes – The decrease in revenue from RMB91.7 million for FPE2016 to RMB32.4 million for FPE2017 was mainly due to decrease in production from 0.5 million pairs for FPE2016 to 0.3 million pairs for FPE2017.

Apparels - The decrease in revenue from RMB273.2 million for FPE2016 to RMB81.8 million for FPE2017 was mainly due to decrease in in sales volume from 1.4 million piece for FPE2016 to 0.5 million piece for FPE2017.

b) Current Quarter vs. Previous Year Corresponding Quarter

The Group achieved a revenue and profit before taxation ("PBT") of RMB116.4 million and RMB13.8 million respectively for the current quarter ("Q2FY2017"), representing decrease of 50.4% and 75.5% in revenue and PBT respectively as compared to the corresponding period in the preceding year.

The decrease in revenue is contributed by the decrease in sales volume of shoe, shoe sole, apparels and accessories in Q1FY2017.

The profit before taxation is RMB13.8 million for this quarter, represents a decrease of 75.5% as compared to the PBT of RMB56.3 million recorded for Q2FY2016.

Performance of the respective operating business segments for Q2FY2017 as compared to Q2FY2016 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.
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B2. Variation of results against immediate preceding quarter

	Current quarter 31 December 2016 RMB 000	**Preceding quarter 30 September 2016 RMB 000**
Revenue	116,404	83,095
Profit before taxation	13,807	18,810

The Group recorded revenue of RMB116.4 million for Q2FY2017, representing a increase of 40.0% as compared to the revenue of RMB83.1 million recorded for the quarter ended 30 September 2016 ("Q1FY2017"). The increase in revenue was due to increase in volume for shoes soles.

The PBT is RMB13.8 million for this quarter, as compared to the PBT of RMB18.8 million recorded for Q1FY2017.

B3. Prospects for FYE 2017

The China economic uncertainties and rising costs of doing business have adversely impact our business. In addition, the change of consumer shopping behavior, spending pattern and stiff competition from e-commerce players have also negatively affected our performance. Our Board of Directors believes the Group’s prospect for the financial year ending 30 June 2017 to be challenging.

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	6,887	12,024
Amortisation of land use rights	70	141
Loss on disposal of property, plant and equipment	-	847
Interest expenses	209	421
Interest income	(786)	(1,631)
Unrealised gain on foreign exchange differences	(25,746)	(37,206)

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	3,691	3,866

The effective tax rate decreased from 18.4% for FPE2016 to 11.8% for FPE2017 due to higher unrealised gain on foreign exchange differences.

B7. Status of Issuance of issuance of 147,106,235 ordinary shares

Purpose	Intended Timeframe	Proposed Utilisation (RM'000)	Actual Utilisation (RM'000)
Business Expansion	Within 18 months	43,132	43,132
Estimated expense for the proposal	Within 1 month	1,000	1,000
Total		44,132	44,132

B8. Group borrowings

The Group's borrowings as at 31 December 2016 were as follows:

	Total
	RMB 000
Short term bank loans – secured	18,000

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

There was no dividend declared by the Company for the current quarter.

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	
	31.12.2016 RMB	31.12.2015 RMB	31.12.2016 RM	31.12.2015 RM
Profit after tax	11,116,000	43,127,000	6,911,000	26,812,000
Weighted average number of ordinary shares in issue	485,169,235	338,063,000	485,169,235	338,063,000
Basic earnings per share	0.02	0.13	0.01	0.08

	Cumulative Quarter 6 Months Ended		Cumulative Quarter 6 Months Ended	
	31.12.2016 RMB	31.12.2015 RMB	31.12.2016 RM	31.12.2015 RM
Profit after tax	28,751,000	79,225,000	17,876,000	49,255,000
Weighted average number of ordinary shares in issue	485,169,235	338,063,000	485,169,235	338,063,000
Basic earnings per share	0.06	0.23	0.04	0.15

b) Diluted

As of 30 June 2016, the Group has 192,361,093 of Warrant A 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 RM0.88 each. The Group also has 49,035,342 of Warrant B 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 RM0.40 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 IAS33, 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 6 Months Ended		Cumulative Quarter 6 Months Ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RMB 000	RMB 000	RM 000	RM 000
Total Retained Profit				
Realised	822,513	1,382,807	529,698	890,528
Unrealised	32,355	42,245	20,837	27,205
	854,868	1,425,052	550,535	917,733
Consolidation adjustments	-	22,652	-	14,588
	854,868	1,447,704	550,535	932,321

By Order of the Board

Kang Shew Meng
Seow Fei San
Secretaries

24 February 2017