7.2.6 Selling and distribution expenses

Selling and distribution expenses represented approximately 3.1%, 3.0%, 3.1% and 1.7% of our revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Selling and distribution expenses comprise mainly advertising and promotion ("A&P") expenses, marketing expenses, salaries and staff-related expenses of our sales and marketing personnel, and sales-related tax contribution.

The decrease in selling and distribution expenses in FYE 2009 was mainly due to management's initiatives to postpone the launch of several advertising programmes in second half of 2009, so as to achieve maximum benefits from the Group's future advertising efforts when the economy recovers. In addition, the Company had incurred higher expenses for advertising programmes and for the appointment of the brand ambassador, namely, Tian Liang over a two-year contract in the FYE 2008.

Despite the cut back on the selling and distribution expenses, the Directors and key management of the Company believe that this temporary cost-control measure to scale down the quantum of the Group's advertising budget during economic downturn would not affect the Group's emphasis in enhancing its brand focus. Furthermore, the Directors and key management of the Company do not expect the decline in the aforesaid overhead to have any effect to the sales and marketing strategy as the Company intends to subsequently increase its advertising efforts in the succeeding periods.

We set out the breakdown of our selling and distribution expenses for FYE 2006, FYE 2007, FYE 2008 and FYE 2009:

In RMB

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
A&P	2,258	46.0	6,632	72.7	11,972	78.1	5,690	59.9
Marketing expenses	2,300	46.9	2,150	23.6	2,032	13.3	2,501	26.3
Staff cost	151	3.1	149	1.6	333	2.2	473	5.0
Sales-related tax contribution	59	1.2	66	0.7	923	6.0	810	8.5
Others	140	2.8	125	1.4	71	0.4	28	0.3
Grand total	4,908	100.0	9,122	100.0	15,331	100.0	9,502	100.0

In RM

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
A&P	1,037	46.0	2,996	72.7	5,778	78.1	2,934	59.9
Marketing expenses	1,057	46.9	971	23.6	981	13.3	1,290	26.3
Staff cost	69	3.1	67	1.6	161	2.2	244	5.0
Sales-related tax contribution	27	1.2	30	0.7	445	6.0	418	8.5
Others	65	2.8	57	1.4	34	0.4	14	0.3
Grand total	2,255	100.0	4,121	100.0	7,399	100.0	4,900	100.0

A&P expenses comprise mainly (i) cost of advertisements on various media, including television and billboards; (ii) costs of promotional activities and materials, including posters, banners, billboards, gifts and brochures; and (iii) engagement cost of our brand ambassador (from FYE 2008 onwards).

Marketing expenses comprise mainly (i) organisation and participation in trade shows; and (ii) entertainment and travelling expenses which were mainly incurred by the management for business entertainment and business development activities.

Staff cost comprises salaries and staff-related expenses such as social insurance welfare benefits (include old age, medical, unemployment, work injury and childbearing which are required by law) of sales and marketing personnel.

Sales-related tax contribution relates to tax contribution at prevailing rates made in tandem with the sales revenue to the Jinjiang Local Tax Bureau.

Other expenses comprise mainly (i) general office expenses which include telecommunication expenses and office supplies; (ii) upkeep of motor vehicles; and (iii) inspection expenses or charges imposed by the local bureau of the CIQ as they inspect the quality of the products meant for export to ensure compliance with applicable health and hygiene standards set by the respective governing bodies.

7.2.7 Administrative expenses

Administrative expenses represented approximately 2.7%, 1.7%, 1.6% and 1.8% of our revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Our administrative expenses are generally fixed costs in nature. However, this increasing trend is mainly attributed to higher manpower costs and expenses incurred in business expansion and corporate development, thereby resulting in more than proportionate increase in administrative expenses compared to our revenue. Administrative expenses comprise mainly salary and other staff-related expenses relating to our management, design and development, administrative and support personnel, depreciation charges for property, plant and equipment, and other administrative expenses.

We set out the breakdown of our administrative expenses for FYE 2006, FYE 2007, FYE 2008 and FYE 2009:

In RMB

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Amortisation of land use rights	194	4.5	197	3.8	197	2.5	197	1.9
Depreciation	570	13.4	800	15.3	802	10.0	1,192	11.4
Staff cost	2,414	56.5	2,644	50.7	3,451	43.3	4,759	45.7
Labour union expenses	30	0.7	40	0.8	603	7.6	685	6.6
Entertainment	456	10.7	409	7.8	1,150	14.4	817	7.8
Travelling	99	2.3	201	3.9	409	5.1	483	4.6
Others	506	11.9	925	17.7	1,366	17.1	2,293	22.0
Grand total	4,269	100.0	5,216	100.0	7,978	100.0	10,426	100.0

In RM

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Amortisation of land use rights	89	4.5	89	3.8	95	2.5	102	1.9
Depreciation	262	13.4	361	15.3	387	10.0	615	11.4
Staff cost	1,109	56.5	1,195	50.7	1,666	43.3	2,454	45.7
Labour union expenses	14	0.7	18	0.8	291	7.6	353	6.6
Entertainment	209	10.7	185	7.8	555	14.4	421	7.8
Travelling	45	2.3	91	3.9	197	5.1	249	4.6
Others	233	11.9	418	17.7	659	17.1	1,183	22.0
Grand total	1,961	100.0	2,357	100.0	3,850	100.0	5,377	100.0

Amortisation of land use rights relate to lands located in the PRC.

Depreciation expenses relate mainly to the depreciation charges of our property, plant and equipment not directly attributed to production activities.

Staff cost comprises salaries and staff-related expenses such as social insurance welfare benefits (include old age, medical, unemployment, work injury and childbearing which are required by law) of our management, design and development, accounting and administrative personnel.

Labour union expenses relate to a compulsory fee payable to the labour union fund in Jinjiang City, Fujian Province, which is a centralised fund managed by the PRC Labour Department.

Entertainment and travelling expenses were mainly incurred by the management for business entertainment and business development activities.

Other expenses comprise mainly (i) general office expenses which include telecommunication expenses, office supplies, repair and maintenance cost of office building and facilities; (ii) upkeep of motor vehicles; (iii) stamp duty; (iv) insurance expenses which relates to insurance coverage for our factory buildings, inventories and motor vehicles; (v) material costs and consumables related to design and development; (vi) reimbursement of charges incurred by professionals; (vii) office rental expenses; (viii) foreign exchange loss, net and (ix) donation.

7.2.8 Finance costs

Our finance costs represented 0.3%, 0.3%, 0.2% and 0.1% of our revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. These costs were mainly attributable to interest expenses arising from bank borrowings, which were utilised for general working capital purposes.

7.2.9 Taxation

Our company, which was incorporated in Singapore in November 2008, does not have any assessable profit and was not subjected to income tax in both FYE 2008 and FYE 2009.

In accordance with the Applicable Foreign Enterprises Tax Law, a foreign investment enterprise ("FIE") engaged in production having a period of operation of not less than ten years shall be exempted from national income tax for the first two profit-making years and a 50% reduction in the national income tax payable for the next three years. Fujian Dixing has been granted such incentives for the financial years ended 1993 to 1997.

During the Financial Years under Review, Fujian Dixing which was incorporated as a WFOE since 1992, was subject to an income tax rate of 27.0% for FYE 2007. In accordance with the "Enterprise Income Tax Law of the PRC" ("EIT Law") promulgated on 16 March 2007 by the National People's Congress of the PRC, with effect from 1 January 2008, the tax rate applicable to Fujian Dixing will be revised to 25.0%. Please see Section 4 of this Prospectus for more information.

Our effective tax rates for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 are approximately 23.6%, 26.5%, 24.6% and 25.7% respectively.

7.2.10 Inflation

Our financial performance for the Financial Years under Review was not materially affected by inflation on a Group basis.

7.2.11 Seasonality

We typically do not experience any significant seasonality in our revenues during the Financial Years Review as our products are mainly sold to distributors who typically make orders and maintain a certain level of inventory of our products throughout the year.

7.2.12 Review of historical financial performance

<u>**FYE 2006 vs FYE 2007**</u>

Revenue

Our revenue increased by RMB143.8 million or 91.8% from RMB156.7 million in FYE 2006 to RMB300.5 million in FYE 2007. The increase in revenue was mainly due to a significant increase in the sales volume of our sports footwear products from approximately 3.3 million pairs of shoes in FYE 2006 to 4.7 million pairs of shoes in FYE 2007. The increase was attributed to a growth in revenue derived from both our Proprietary Brand and third party brand OEM/ODM sales by approximately 121.1% and 29.3% respectively. In September 2007, we secured new OEM/ODM contract to produce footwear of Le Coq Sportif brand. The more than proportionate increase in revenue derived from our Proprietary Brands as compared to the OEM/ODM sales were mainly due to our strategies to further grow and develop our own Proprietary Brands of products, which generally commanded higher ASP and profit margin. Sales of our Proprietary Brand footwear increased significantly as we expand in scale and depth of our distribution network through further increase in our retail outlets in the PRC from 220 in FYE 2006 to 351 in FYE 2007, as our products further penetrated the consumer markets in the PRC and overseas through our main key distributor in Moscow, Russia. Our overseas wholesale distribution outlets in Moscow, Russia have expanded from 9 in FYE 2006 to 11 in FYE 2007.

Our ASP increased by approximately RMB16.3 or 34.0% from RMB47.9 per pair of shoes in FYE 2006 to RMB64.2 per pair of shoes in FYE 2007 as a result of an overall higher price positioning for both our Proprietary Brands and third party brands, with greater emphasis on product branding and quality.

In FYE 2007, we further expanded our manufacturing capacity by setting up our fourth production line and continued to outsource certain orders to third party contract manufacturers to cope with the increase in demand from our customers.

Cost of sales and gross profit margin

Our cost of sales increased by RMB104.6 million or 85.1% from RMB122.9 million in FYE 2006 to RMB227.5 million in FYE 2007, in line with the increase in revenue.

Our direct material costs increased by RMB93.4 million or 96.1% from RMB97.2 million in FYE 2006 to RMB190.6 million in FYE 2007. The average cost of material per pair of shoes increased by RMB10.99 or 37.0%, which was slightly more than proportionate over the increase in ASP by 34.0% in FYE 2007.

Direct labour costs increased by RMB8.8 million or 54.7% from RMB16.1 million in FYE 2006 to RMB24.9 million in FYE 2007, mainly attributed to an increase in the number of production staff from 735 in FYE 2006 to 985 in FYE 2007 as a result of the addition of our fourth production line in FYE 2007. The average direct labour costs per pair of shoes computed solely based on in-house production increased by approximately 8%, in line with the general wage hike within the industry. The increase was significantly less than proportionate over the increase in ASP by 34.0% in FYE 2007.

Manufacturing overheads increased by RMB0.6 million or 27.3% from RMB2.2 million in FYE 2006 to RMB2.8 million in FYE 2007, in line with the increase in in-house production output from 2.6 million pairs of shoes in FYE 2006 to 3.6 million pair in FYE 2007.

Subcontracting costs increased by RMB1.9 million or 26.0% from RMB7.3 million in FYE 2006 to RMB9.2 million in FYE 2007, which was mainly attributable to an increase in revenue generated from outsourced production. Outsourced production volume increased by 0.3 million pairs of shoes or 42.9% from 0.7 million pairs of shoes in FYE 2006 to 1.0 million pairs of shoes in FYE 2007. The unit subcontracting costs decreased slightly due to more favourable rates obtained from a higher volume of outsourced production as a result of intensive competition within the industry.

Our gross profit margin improved from 21.6% in FYE 2006 to 24.3% in FYE 2007. This was mainly attributed to an increase in ASP by 34.0% and a significantly less than proportionate increase in direct labour, subcontracting costs and manufacturing overheads due to a moderation of wages in the labour market and economies of scale achieved in production and subcontract processing. The increase in gross profit margin was partially offset by a slightly more than proportionate increase in raw material costs as a result of higher oil prices.

Overall, our gross profit increased by RMB39.2 million or 116.0% from RMB33.8 million in FYE 2006 to RMB73.0 million in FYE 2007 as a result of an overall increase in sales volume and higher gross profit margin.

Other income

Other income increased by approximately RMB0.2 million due to higher interest income on bank deposits.

Selling and distribution expenses

Selling and distribution expenses increased by RMB4.2 million or 85.7% from RMB4.9 million in FYE 2006 to RMB9.1 million in FYE 2007. This increase was mainly attributable to an increase in A&P expenses of RMB4.3 million or 187.0% from RMB2.3 million in FYE 2006 to RMB6.6 million in FYE 2007 as a result of higher expenses incurred for advertising expenditure of our Proprietary Brands.

Administrative expenses

Our administrative expenses increased by RMB0.9 million or 20.9% from RMB4.3 million in FYE 2006 to RMB5.2 million in FYE 2007. There were generally no significant fluctuations in the various expenses items and the increase was mainly due to an overall increase in staff cost, depreciation, travelling, upkeep of motor vehicles, donations and other administrative expenses.

Finance costs

Our finance costs increased by RMB0.5 million or 100.0% from RMB0.5 million in FYE 2006 to RMB1.0 million in FYE 2007 due to higher interest incurred for bank borrowings comprising short term loans to meet our working capital requirements.

PBT

PBT increased by RMB33.7 million or 139.3% from RMB24.2 million in FYE 2006 to RMB57.9 million in FYE 2007. The increase in PBT was mainly due to the increase in gross profit of RMB39.2 million and other income of RMB0.2 million, which was partially offset by an increase in selling and distribution expenses, administrative expenses and finance costs by RMB4.2 million, RMB0.9 million and RMB0.5 million respectively.

Taxation

Our income tax expense increased by RMB9.7 million or 170.2% from RMB5.7 million in FYE 2006 to RMB15.4 million in FYE 2007 due to a higher effective tax rate of 26.5% in FYE 2007 as compared to 23.6% in FYE 2006.

PAT

As a result of the above, our PAT increased by RMB24.0 million or 129.7% from RMB18.5 million in FYE 2006 to RMB42.5 million in FYE 2007.

FYE 2007 vs FYE 2008

Revenue

Our revenue increased by RMB200.6 million or 66.8% from RMB300.5 million in FYE 2007 to RMB501.1 million in FYE 2008. The increase in revenue was mainly due to a significant increase in the sales volume of our sports footwear products from approximately 4.7 million pairs of shoes in FYE 2007 to 6.9 million pairs of shoes in FYE 2008. The increase was attributed to a growth in revenue derived from both our Proprietary Brand and third party brand OEM/ODM sales by approximately 74.8% and 37.3% respectively. In September 2007, we secured new OEM/ODM contract to produce footwear of Le Coq Sportif brand, thereby further contributing to our OEM/ODM revenue in FYE 2008. We have engaged multi-Olympics Gold Medal diving champion, Tian Liang (田亮) to be our brand ambassador in 2008 in a strategic positioning of our Proprietary Brands of products in the market. The revenue derived from our Proprietary Brands increased significantly as we continued to expand our distribution network through further increase in our retail outlets in the PRC from 351 in FYE 2007 to 603 in FYE 2008. Our products further penetrated the consumer markets in the PRC and overseas through our main key distributor in Russia, Moscow, whereby our overseas wholesale distribution outlets in Moscow, Russia expanded from 11 in FYE 2007 to 13 in FYE 2008.

Our ASP increased by approximately RMB8.1 or 12.6% from RMB64.2 per pair of shoes in FYE 2007 to RMB72.3 in FYE 2008. This was mainly due to an overall higher price positioning for both our Proprietary Brand as well as our ODM/OEM sales with emphasis on product design, quality and branding.

Whilst we maintained a high utilisation rate of our existing production facilities, we have increased significantly the volume of orders outsourced to third party contract manufacturers in order to cope with the increase in sales.

Cost of sales and gross profit margin

Our cost of sales increased by RMB147.0 million or 64.6% from RMB227.5 million in FYE 2007 to RMB374.5 million in FYE 2008, in line with the increase in revenue.

Our direct material costs increased by RMB117.4 million or 61.6% from RMB190.6 million in FYE 2007 to RMB308.0 million in FYE 2008. The average cost of material per pair of shoes increased by RMB3.72 or 9.1%, which was less than proportionate over the increase in ASP by 12.6% in FYE 2008.

Direct labour costs increased by RMB1.3 million or 5.2% from RMB24.9 million in FYE 2007 to RMB26.2 million in FYE 2008 mainly due to a higher level of production output. There was no significant fluctuation in the average direct labour production costs per pair of shoes.

Manufacturing overheads increased by RMB0.2 million or 7.1% from RMB2.8 million in FYE 2007 to RMB3.0 million in FYE 2008 mainly due to additional rental expenses incurred in respect of a leased production building and higher depreciation.

Subcontracting costs increased by RMB28.1 million or 305.4% from RMB9.2 million in FYE 2007 to RMB37.3 million in FYE 2008, in line with an increase in revenue generated from outsourced production. Outsourced production volume increased by 2.5 million pairs of shoes or 250.0% from 1.0 million pairs of shoes in FYE 2007 to 3.5 million pairs of shoes in FYE 2008. The unit subcontracting costs increased in tandem with the general wage increment experienced in the industry as a result of higher inflation rates.

Our gross profit margin improved from 24.3% in FYE 2007 to 25.3% in FYE 2008. This was mainly attributed to an increase in ASP by 12.6% and a significantly less than proportionate increase in direct labour, raw material costs and manufacturing overheads due to a softening of oil prices and economies of scale achieved in production. The increase in gross profit margin was partially offset by a more than proportionate increase in subcontract costs in tandem with a general wage hike in the industry.

Overall, our gross profit increased by RMB53.6 million or 73.4% from RMB73.0 million in FYE 2007 to RMB126.6 million in FYE 2008 as a result of an overall increase in sales volume and higher gross profit margin.

Other income

Other income decreased by approximately RMB0.2 million due to lower interest income on bank deposits.

Selling and distribution expenses

Selling and distribution expenses increased by RMB6.2 million or 68.1% from RMB9.1 million in FYE 2007 to RMB15.3 million in FYE 2008. This increase was mainly attributable to an increase in A&P expenses of RMB5.4 million or 81.8% from RMB6.6 million in FYE 2007 to RMB12.0 million in FYE 2008 as a result of higher expenses incurred for advertising expenditure of our Proprietary Brands, including the appointment of our brand ambassador in FYE 2008. Our sales-related tax contribution further increased by RMB0.9 million in line with an increase in revenue and due to a higher general mandatory rate of contribution imposed by the Jinjiang Local Tax Bureau in FYE 2008.

Administrative expenses

Our administrative expenses increased by RMB2.8 million or 53.8% from RMB5.2 million in FYE 2007 to RMB8.0 million in FYE 2008 mainly due to an increase in staff cost, related labour union contribution, stamp duties, entertainment and travelling expenses by approximately RMB0.8 million, RMB0.6 million, RMB0.3 million, RMB0.7 million and RMB0.2 million as a result of an overall increase in headcount and general wage increment, as well as to ensure compliance with statutory contribution, and to meet the needs of business development and expansion.

Finance costs

Our finance costs decreased by RMB0.2 million or 20.0% from RMB1.0 million in FYE 2007 to RMB0.8 million in FYE 2008 due to a decrease in bank borrowings comprising short term loans to meet our working capital requirements.

PBT

PBT increased by RMB44.6 million or 77.0% from RMB57.9 million in FYE 2007 to RMB102.5 million in FYE 2008. The increase in PBT was mainly due to the increase in gross profit of RMB53.6 million, which was partially offset by an increase in selling and distribution expenses, and administrative expenses by RMB6.2 million and RMB2.8 million respectively.

Taxation

Our income tax expense increased by RMB9.8 million or 63.6% from RMB15.4 million in FYE 2007 to RMB25.2 million in FYE 2008 despite the reduction in both the PRC statutory tax rate from 27% in FYE 2007 to 25% in FYE 2008 and effective tax rate from 26.5% in FYE 2007 to 24.6% in FYE 2008, due to the increased in profit and higher revenue.

PAT

As a result of the above, our PAT increased by RMB34.7 million or 81.6% from RMB42.5 million in FYE 2007 to RMB77.2 million in FYE 2008.

FYE 2008 vs FYE 2009

Revenue

Our revenue increased by RMB70.0 million or 14.0% from RMB501.1 million in FYE 2008 to RMB571.1million in FYE 2009. The increase in revenue was mainly due to a significant increase in the sales volume of our sports footwear products from approximately 6.9 million pairs of shoes in FYE 2008 to 7.9 million pairs of shoes in FYE 2009. The increase was attributed to a growth in revenue derived from third party brand OEM/ODM sales by approximately 48.1%. Our revenue derived from our Proprietary Brand footwear increased by approximately 6.6% due to weak consumer sentiments in the PRC and overseas market as a result of the slowdown in global economy. Nevertheless, we continue to expand our distribution network through an increase in our retail outlets from 603 in FYE 2008 to 760 in FYE 2009 as we have confidence in the long-term growth prospects of our Proprietary Brand of products in the PRC markets.

Our ASP increased by approximately RMB0.1 or 0.1% from RMB72.3 per pair of shoes in FYE 2008 to RMB72.4 in FYE 2009 as a result of an increase in the ASP of our Proprietary Brands and ODM/OEM products in the PRC, which increased by RMB3.3 or 4.1% from RMB80.8 per pair of shoes in FYE 2008 to RMB84.1 in FYE 2009 as a result of an overall higher price positioning for these footwear products with emphasis on product design, quality and branding. This was partially cushioned by significantly lower ASP from the overseas markets due to higher demand for affordable low-end mass market footwear products.

Cost of sales and gross profit margin

Our cost of sales increased by RMB57.4 million or 15.3% from RMB374.5 million in FYE 2008 to RMB431.9 million in FYE 2009.

Our direct material costs increased by RMB51.8 million or 16.8% from RMB308.0 million in FYE 2008 to RMB359.8 million in FYE 2009. The average cost of material per pair of shoes increased by RMB1.15 or 2.6%, which was more than proportionate over the increase in ASP by 0.1% in FYE 2009.

Direct labour costs increased by RMB1.2 million or 4.6% from RMB26.2 million in FYE 2008 to RMB27.4 million in FYE 2009 mainly due to a higher level of production output. The average direct labour production cost per pair of shoes has generally increased due to higher contribution made for social security insurance.

Manufacturing overheads decreased by RMB0.2 million or 6.7% from RMB3.0 million in FYE 2008 to RMB2.8 million in FYE 2009 mainly due to a reduction in electricity tarrif.

Subcontracting costs increased by RMB4.4 million or 11.8% from RMB37.3 million in FYE 2008 to RMB41.7 million in FYE 2009, which was mainly attributable to an increase in volume generated from outsourced production. Outsourced production volume increased by 0.5 million pairs of shoes or 14.3% from 3.5 million pairs of shoes in FYE 2008 to 4.0 million pairs of shoes in FYE 2009. Between FYE 2008 and FYE 2009, the unit subcontracting costs has decreased by 4.5% due to more competitive rates being negotiated with our third party contract manufacturers, in tandem with the economic slowdown in the PRC.

Our gross profit margin declined from 25.3% in FYE 2008 to 24.4% in FYE 2009. This was mainly attributed to an increase in ASP by 0.1% as compared to a more than proportionate increase in the cost of sales as the prevailing economic slowdown has affected consumer sentiment in both the PRC market and to a greater extent, the overseas market.

Overall, our gross profit increased by RMB12.6 million or 10.0% from RMB126.6 million in FYE 2008 to RMB139.2 million in FYE 2009 as a result of higher sales and ASP despite a decline in our gross profit margin.

Other income

Other income increased by RM0.05 million or 83.3% from RMB0.06 million in FYE 2008 to RMB0.11 million in FYE 2009 mainly due to higher interest income on bank deposits and a one-off gain from disposal of property, plant and equipment.

Selling and distribution expenses

Selling and distribution expenses decreased by RMB5.8 million or 37.9% from RMB15.3 million in FYE 2008 to RMB9.5 million in FYE 2009. The decrease was mainly due to a decrease in A&P expenditure by RMB6.3 million or 52.5% from RMB12.0 million in FYE 2008 to RMB5.7 million in FYE 2009 as we postponed the launch of several advertising programmes in second half of 2009 in view of the current economic slowdown.

Administrative expenses

Our administrative expenses increased by RMB2.4 million or 30.0% from RMB8.0 million in FYE 2008 to RMB10.4 million in FYE 2009 mainly due to an increase in staff cost, depreciation, rental charges, reimbursement of costs incurred by professionals and net foreign exchange loss by approximately RMB1.3 million, RMB0.4 million, RMB0.2 million, RMB0.5 million and RMB0.5 million as a result of addition to our property, plant and equipment including the commissioning of our new corporate administration cum management dormitory building, an overall increase in key management headcount, general wage increment and higher social insurance contribution as well as to meet the needs of increasing business development and expansion. The net foreign exchange loss in FYE 2009 arose as a result of the weakening of United States dollar against China Yuan Renminbi as well as the strengthening of Malaysian Ringgit against China Yuan Renminbi of our assets and liabilities denominated in United States dollar and Malaysian Ringgit respectively.

Finance cost

Our finance costs decreased by RMB0.2 million or 25.0% from RMB0.8 million in FYE 2008 to RMB0.6 million in FYE 2009 due to a decline in the bank lending rates of our bank borrowings comprising short term loans to meet our working capital requirements.

PBT

PBT increased by RMB16.3 million or 15.9% from RMB102.5 million in FYE 2008 to RMB118.8 million in FYE 2009. The increase in PBT was mainly due to the increase in gross profit of RMB12.6 million, a decrease in selling and distribution expenses, and finance costs of RMB5.8 million and RMB0.2 million respectively, which was partially offset by an increase in administrative expenses of RMB2.4 million.

Taxation

Our income tax expense increased by RMB5.3 million or 21.0% from RMB25.2 million in FYE 2008 to RMB30.5 million in FYE 2009 mainly due to an increase in the profit and higher revenue.

PAT

As a result of the above, our PAT increased by RMB11.1 million or 14.4% from RMB77.2 million in FYE 2008 to RMB88.3 million in FYE 2009.

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Factors and trends affecting our financial condition and results of operations

Our Group's financial performance and operations have been affected by the following key factors:

(i) Fluctuations in the economic condition of the PRC and our other overseas markets

Our manufacturing operations are located in the PRC and we derive our revenue from both PRC domestic sales and from sales to overseas markets through our Exporter to countries such as Russia, Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary. Accordingly, the success of our business depends to a large extent on the conditions and the continued growth in both consumer markets in PRC and overseas, respectively. The growth in such markets in turn depends on the conditions and the continued growth in their respective economies and individual income levels. We believe that consumer spending habits are adversely affected during periods of economic downturn, recession in the economy or uncertainties regarding future economic prospects which may have an adverse effect on certain enterprises operating within the consumer and retail sectors, including our Group. Any future slowdown or decline in the economy of the PRC and/or our overseas markets and general consumer spending habits would adversely affect our business, operating results and financial condition.

Between FYE 2008 and FYE 2009, our revenue derived from our Proprietary Brand footwear grew at a gradual rate of approximately 6.6% mainly due to weak consumer sentiments in both our PRC and overseas market as a result of the slowdown in global economy. The slowdown in the growth of our Proprietary Brand footwear sales was mitigated by accelerating growth in revenue derived from third party brand OEM/ODM sales by approximately 48.1%, with a significantly higher contribution derived from the overseas market due to shift in demand for affordable low-end mass market footwear products amid the global economic slowdown. Nevertheless, we continue to expand our distribution network through an increase in our retail outlets from 603 in FYE 2008 to 760 in FYE 2009 as we have confidence in the long-term growth prospects of our Proprietary Brand of products in the PRC markets. Please refer to Section 5.9 on the prospects and outlook of the industry and Section 6.3 on our competitive strengths and advantages.

(ii) Highly competitive sports footwear industry

We operate in a highly competitive sports footwear industry and are subject to intense competition from both international and domestic brands. The competitive factors in our industry include, amongst others, brand loyalty, product variety, design, quality and price. The sports footwear is ever-evolving and with low business entry of barrier to this industry and therefore, we could also face competition from brands with similar brand positioning, target consumers and/or market segment. In the light of the constantly changing and competitive market environment, there is no assurance that we will be able to compete effectively against new and existing competitors, who may have greater financial resources, greater scales of production, superior technology, better brand recognition and a wider, more diverse and established distribution network. To compete effectively and maintain our market share, we may be forced to, among other actions, reduce prices, provide more sales incentives to our distributors, and increase capital expenditures, which may in turn negatively affect our profit margins and financial performance.

(iii) Quality, prices, and timely supply of raw materials for our products

Leather, nylon, fabrics, rubber and EVA shoe soles, are the principal raw materials used in the production of our products. Substantially all of our raw materials are sourced from PRC suppliers, with a relatively small portion from the international markets and we do not enter into long-term contracts with any of our raw material suppliers. Our footwear manufacturing operations depend on obtaining adequate supplies of footwear materials on a timely basis. We can give no assurance that our suppliers will continue to maintain the quality of the raw material supplied to us or continue to supply raw materials to us on a timely basis. In such event, our production may be disrupted and therefore, our order delivery may be adversely affected. In addition, market prices for our raw materials are subject to fluctuation and may be dependent on the prices of commodities. Our Group neither hedges our exposure to the fluctuations in commodity prices nor enters into any long-term contracts with our suppliers. Our total cost of materials of our products accounted for 79.2%, 83.8%, 82.2% and 83.3% of the cost of sales in FYE 2006, FYE2007, FYE2008 and FYE 2009 respectively. Our financial performance will be adversely affected if we are unable to pass on the increased cost of raw materials to our customers by selling our products at higher prices.

(iv) Shortage of skilled labour and rising labour costs in the PRC

The sports footwear manufacturing industry is labour intensive. Labour costs in the PRC have been experiencing an upward trend in the past few years and there is no assurance that the cost of labour in the PRC will not continue to increase in the future or that we will be able to offset such increase in labour cost against corresponding increases in the prices of our products. In the event that we fail to pass on increasing labour costs to our customers, our business and financial performance may be adversely affected.

(v) Fluctuations in consumer spending caused by changes in macro economic conditions in the PRC may significantly affect our business and financial performance

Our sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, where all of our revenues have been generated in the past and are expected to be generated in the future. There are many factors affecting the level of consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy, where the PRC's nominal GDP was estimated by the National Bureau of Statistics to have grown at a compounded annual growth rate of approximately 17.1% from 2004 to 2008.

We can provide no assurance that the PRC will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our prospects and operating results.

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(vi) Possible infringements of our intellectual property rights such as the counterfeiting of our Proprietary Brands in the market

Our primary intellectual property rights include our Proprietary Brands, which we have registered in the PRC. For further details, please refer to the Section 6.13 entitled "Intellectual Property" of this Prospectus. We consider the recognition of our trademarks to be vital in the sale of our products. Any unauthorised use of our trademarks may damage the brand recognition and reputation of our Group. Although we have registered our trademarks, it may be possible for third parties to unlawfully pass off their products as ours or to infringe our copyright in the design and/or manufacture of their products. We depend to a significant extent on PRC laws for the protection of our intellectual property rights. In the event that third parties infringe upon our intellectual property rights in respect of our trademark by unlawfully passing off their products as our products, imitating or using our trademarks without authorisation from us, we may face considerable difficulties and costly litigation in order to fully protect these intellectual property rights, which may affect our reputation, sales and financial performance.

After taking into consideration the above and risk factors as set out in Sections 4.1 and 4.2 of this Prospectus, the prospects and outlook of the industry and our competitive strengths as set out in Sections 5.9 and 6.3 of this Prospectus respectively as well as the business strategies and future plans as set out in Section 5.10 of this Prospectus, we remain optimistic of our future financial condition and results of operations.

However, the factors affecting our financial position and operation as set out above and in Section 4 of the Prospectus may not be exhaustive.

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7.3 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION

GrantThornton

REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION
(Prepared for inclusion in this Prospectus)

SJ Grant Thornton (AF:0737)
Level 11, Faber Imperial Court
Jalan Sultan Ismail,
P. O. Box 12337
50774 Kuala Lumpur, Malaysia
T +6 (03) 2692 4022
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Date: 7 April 2010

The Board of Directors
K-Star Sports Limited
8 Cross Street
#11-00 PWC Building
Singapore 048424

Dear Sirs,

K-STAR SPORTS LIMITED
AND ITS SUBSIDIARY COMPANY
PROFORMA CONSOLIDATED FINANCIAL INFORMATION

We have reviewed the Proforma Consolidated Financial Information of K-Star Sports Limited ("K-Star Sports" or "the Company") and its subsidiary company: Fujian Jingjiang Dixing Shoes Plastics Co., Ltd. ("Fujian Dixing") (collectively known as "K-Star Sports Group" or "the Group") for the financial years ended 31 December 2006 to 2009, together with the notes and assumptions thereto, as set out in this Prospectus, which we have stamped for the purpose of identification, in connection with the listing and quotation of the entire enlarged issued and fully paid-up share capital of K-Star Sports on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Proforma Consolidated Financial Information have been prepared for illustrative purposes solely for the purpose of inclusion in the prospectus ("Prospectus") on the basis of assumptions as set out below and after making certain adjustments to show that:

i) the financial results of K-Star Sports Group for the financial years ended 31 December 2006 to 2009 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the years being reported on;

ii) the financial position of K-Star Sports Group as at 31 December 2009 would have been on that date, adjusted for the Conversion of Convertible Loans, Public Issue and Utilisation of Listing Proceeds; and

iii) the cash flows of K-Star Sports Group for the financial year ended 31 December 2009 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the financial year ended 31 December 2009, adjusted for the Conversion of Convertible Loans, Public Issue and Utilisation of Listing Proceeds.

GrantThornton

The Proforma Consolidated Financial Information, because of its nature, may not give a true picture of K-Star Sports Group's actual financial results, financial position and cash flows. Further, such information does not predict the Group's future financial position, results and cash flows.

It is the sole responsibility of the Directors of K-Star Sports Group to prepare the Proforma Consolidated Financial Information in accordance with the requirements of the Prospectus Guidelines in respect of Public Offerings issued by the Securities Commission. Our responsibility is to form an opinion as required by the Prospectus Guidelines on the Proforma Consolidated Financial Information and our letter is given to you solely for this, and no other purpose.

In providing this opinion, we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Proforma Consolidated Financial Information, nor do we accept responsibility for such reports or opinions beyond that is owed to those to whom those reports or opinions were addressed by us at the date of their issue.

Our work, which involved no independent examination of any of the underlying financial information, primarily to compare the Proforma Consolidated Financial Information with the audited Consolidated Statements of Financial Position, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Equity, Consolidated Cash Flow Statements, a summary of significant accounting policies and other explanatory notes of K-Star Sports Group ("audited Consolidated Financial Statements"), considering the evidence supporting the adjustments and discussing the Proforma Consolidated Financial Information with the Directors of K-Star Sports Group.

In our opinion, the Proforma Consolidated Financial Information together with the accompanying notes which are provided solely for illustrative purposes only,

(a) have been properly compiled on a basis of preparation as stated in the notes thereto; such basis is consistent with the accounting policies adopted by K-Star Sports Group in the audited Consolidated Financial Statements;

(b) the adjustments are appropriate for the purposes of the Proforma Consolidated Financial Information; and

(c) the audited Consolidated Financial Statements used in the preparation of the Proforma Consolidated Financial Information were prepared in accordance with International Financial Reporting Standards ("IFRS").

GrantThornton

This letter is not to be reproduced, referred to in any other document, or used or relied upon for any other purpose without our prior written consent.

Yours faithfully,

SJ GRANT THORNTON
NO. AF: 0737
CHARTERED ACCOUNTANTS

DATO' N.K. JASANI
NO: 708/03/12 (J/PH)
PARTNER OF THE FIRM

K-STAR SPORTS LIMITED

(Incorporated in Singapore under Singapore Companies Act – Company No: 200820976H)
(Registered as a foreign company in Malaysia under Companies Act 1965 of Malaysia – Malaysia Branch No: 995214 D)

AND ITS SUBSIDIARY COMPANY

Basis of preparation of Proforma Consolidated Financial Information

1. The Proforma Consolidated Financial Information has been prepared to illustrate that:

   a) the financial results of K-Star Sports Group for the Financial Years Ended ("FYE") 31 December 2006 to 2009 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the years being reported on;

   b) the financial position of K-Star Sports Group as at 31 December 2009 would have been on that date, adjusted for the Conversion of Convertible Loans, Public Issue and Utilisation of Listing Proceeds; and

   c) the cash flows of K-Star Sports Group for the FYE 31 December 2009 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the FYE 31 December 2009, adjusted for the Conversion of Convertible Loans, Public Issue and Utilisation of Listing Proceeds.

2. The Proforma Consolidated Financial Information has been prepared based on the audited Consolidated Financial Statements of K-Star Sports and its subsidiary company for the FYE 31 December 2006 to 2009 using the bases and the accounting principles consistent with those adopted in the audited Consolidated Financial Statements, after giving effect to the proforma adjustments which are considered appropriate.

3. For illustrative purposes, it was assumed that the acquisition of Fujian Jinjiang Dixing Shoes Plastics Co., Ltd., which collectively known as K-Star Sports Group, which was completed on 9 September 2009 took place prior to 1 January 2006 in arriving at the proforma consolidated financial results for the FYE 31 December 2006 to 2009.

4. The Proforma Consolidated Financial Information have been prepared for illustrative purposes only and, because of their nature, may not give a true picture of the actual financial position, results and cash flows of K-Star Sports Group.

5. The audited Consolidated Financial Statements for the FYE 31 December 2006 to 2009 were prepared in accordance with International Financial Reporting Standards ("IFRS").

6. The financial information of K-Star Sports Group is measured using the currency of the primary economic environment in which the Group operates. The functional currency of the Group is China's Renminbi.

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10 7 APR 2010
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AND ITS SUBSIDIARY COMPANY

(i) PROFORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Proforma Consolidated Statements of Comprehensive Income of K-Star Sports Group for the four (4) FYE 31 December 2006 to 2009 are provided for illustrative purposes, extracted from the audited Consolidated Financial Statements of K-Star Sports Group by assuming that K-Star Sports Group has been in existence throughout the financial years under review. Adjustments were made to the Proforma Consolidated Statements of Comprehensive Income to account for retrospective effects of the acquisition of Fujian Dixing which were completed during the FYE 31 December 2009.

Years ended	31/12/2006		31 December 2007		31 December 2008		31 December 2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	156,729	72,001	300,519	135,774	501,069	241,816	571,063	294,497
Gross profit	33,827	15,540	72,979	32,972	126,583	61,089	139,211	71,791
Profit before depreciation, amortisation, interest expenses and taxation	26,815	12,319	61,317	27,703	106,025	51,168	122,510	63,178
Depreciation	(1,930)	(887)	(2,249)	(1,016)	(2,497)	(1,205)	(2,918)	(1,505)
Amortisation	(194)	(89)	(197)	(89)	(197)	(95)	(197)	(102)
Interest expenses	(454)	(209)	(969)	(438)	(843)	(407)	(565)	(291)
Profit before taxation but after depreciation, amortisation and interest expenses	24,237	11,134	57,902	26,160	102,488	49,461	118,830	61,280
Taxation	(5,724)	(2,629)	(15,370)	(6,944)	(25,249)	(12,185)	(30,522)	(15,740)
Profit after taxation	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Gross profit margin (%)	21.58	21.58	24.28	24.28	25.26	25.26	24.38	24.38
PBT margin (%)	15.46	15.46	19.27	19.27	20.45	20.45	20.81	20.81
PAT margin (%)	11.81	11.81	14.15	14.15	15.41	15.41	15.46	15.46
Number of ordinary shares assumed to be issued ('000)	73,479	73,479	73,479	73,479	73,479	73,479	73,479	73,479
Gross Earnings Per Share "EPS"* (RMB/RM)	0.33	0.15	0.79	0.36	1.39	0.67	1.62	0.83
Net EPS* (RMB/RM)	0.25	0.12	0.58	0.26	1.05	0.51	1.20	0.62

* Based on enlarged Share Capital of 73,479,000 ordinary shares (number of ordinary shares assumed in issue after the completion of the Conversion of Convertible Loans but before the Public Issue)

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K-STAR SPORTS LIMITED

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AND ITS SUBSIDIARY COMPANY

(i) PROFORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

1. The Proforma Consolidated Statements of Comprehensive Income have been prepared based on the audited Consolidated Financial Statements of K-Star Sports for the four (4) FYE 31 December 2006 to 2009.

2. There were no extraordinary or exceptional items in all the financial years under review.

3. In preparing this report, the Group has converted all figures stated in Renminbi ("RMB") into Ringgit Malaysia ("RM") based on the following exchange rates, except for the purchase consideration in relation to the Acquisition which the applied rate of exchange is RMB1:RM0.5120, based on the exchange rate as at 9 September 2009 which is the completion date for Acquisition and the Conversion of Convertible Loans which the applied rate of exchange is SGD1 :RM0.4186, based on the exchange rate as at 10 March 2010 which is the completion date for Conversion of Convertible Loans:-

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Statement of comprehensive income based on average rates for the relevant years RMB	0.4594	0.4518	0.4826	0.5157
Statement of financial position based on closing rates at the respective reporting dates RMB	0.4521	0.4563	0.5081	0.5019

The functional currency and presentation currency for audited Consolidated Financial Statements are both in RMB. RM is neither the functional currency nor presentation currency.

The translation from RMB into RM in this report is to comply with the requirements of Prospectus Guidelines – Paragraph 12.01 where all financial statements prepared in currency other than RM must be translated into RM.

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AND ITS SUBSIDIARY COMPANY

(ii) PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Proforma Consolidated Statements of Financial Position of K-Star Sports as at 31 December 2009 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 3 to the Proforma Consolidated Statements of Financial Position on the assumption that these transactions were completed on 31 December 2009.

	As at 31 December 2009		Proforma I		Proforma II		Proforma III	
	RMB' 000	RM' 000	RMB' 000	RM' 000	RMB' 000	RM' 000	RMB' 000	RM' 000
Share capital	189,268	96,905	218,367	111,489	283,998	144,429	280,466	142,657
Merger deficit	(174,156)	(89,932)	(174,156)	(89,932)	(174,156)	(89,932)	(174,156)	(89,932)
Statutory reserve	7,556	3,460	7,556	3,460	7,556	3,460	7,556	3,460
Equity component – convertible loan	1,467	736	-	-	-	-	-	-
Exchange fluctuation reserve	-	2,672	-	2,693	-	2,693	-	2,693
Retained earnings	213,787	105,572	213,787	105,572	213,787	105,572	205,364	101,344
Total shareholders' equity	237,922	119,413	265,554	133,282	331,185	166,222	319,230	160,222
Represented by:								
NON-CURRENT ASSETS								
Property, plant and equipment	62,570	31,404	62,570	31,404	62,570	31,404	70,859	35,564
Land use rights	9,048	4,541	9,048	4,541	9,048	4,541	18,691	9,381
Total non-current assets	71,618	35,945	71,618	35,945	71,618	35,945	89,550	44,945
CURRENT ASSETS								
Inventories	11,006	5,524	11,006	5,524	11,006	5,524	11,006	5,524
Trade receivables	164,858	82,742	164,858	82,742	164,858	82,742	164,858	82,742
Other receivables	32,278	16,200	32,278	16,200	32,278	16,200	25,174	12,635
Fixed deposits with a licensed bank	900	452	900	452	900	452	900	452
Cash and bank balances	34,642	17,387	34,642	17,387	100,273	50,327	77,490	38,892
Total current assets	243,684	122,305	243,684	122,305	309,315	155,245	279,428	140,245

7. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

K-STAR SPORTS LIMITED

(Incorporated in Singapore under Singapore Companies Act – Company No: 200820976H)
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AND ITS SUBSIDIARY COMPANY

(ii) PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

	As at 31 December 2009		Proforma I		Proforma II		Proforma III	
	RMB' 000	RM' 000	RMB' 000	RM' 000	RMB' 000	RM' 000	RMB' 000	RM' 000
CURRENT LIABILITIES								
Trade payables	18,076	9,072	18,076	9,072	18,076	9,072	18,076	9,072
Other payables	8,345	4,188	8,345	4,188	8,345	4,188	8,345	4,188
Borrowings	42,932	21,548	15,300	7,679	15,300	7,679	15,300	7,679
Income tax payable	8,027	4,029	8,027	4,029	8,027	4,029	8,027	4,029
Total current liabilities	77,380	38,837	49,748	24,968	49,748	24,968	49,748	24,968
NET CURRENT ASSETS	166,304	83,468	193,936	97,337	259,567	130,277	229,680	115,277
	237,922	119,413	265,554	133,282	331,185	166,222	319,230	160,222
NUMBER OF ORDINARY SHARES	60,159,000	60,159,000	73,479,000	73,479,000	88,800,000	88,800,000	88,800,000	88,800,000
	RMB	RM	RMB	RM	RMB	RM	RMB	RM
NET ASSETS PER ORDINARY SHARE	3.95	1.98	3.61	1.81	3.73	1.87	3.59	1.80
NET TANGIBLE ASSETS PER ORDINARY SHARE	3.95	1.98	3.61	1.81	3.73	1.87	3.59	1.80

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(ii) PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

1. The Proforma Consolidated Statements of Financial Position have been prepared based on the audited Consolidated Financial Statements of K-Star Sports as at 31 December 2009 using the merger method of accounting for K-Star Sports Group.

2. Conversion rate

In preparing this report, the Group has converted all figures stated in Renminbi ("RMB") into Ringgit Malaysia ("RM") based on the following exchange rates, except for the purchase consideration in relation to the Acquisition which the applied rate of exchange is RMB1:RM0.5120, based on the exchange rate as at 9 September 2009 which is the completion date for Acquisition and the Conversion of Convertible Loans which the applied rate of exchange is SGD1 :RM0.4186, based on the exchange rate as at 10 March 2010 which is the completion date for Conversion of Convertible Loans:-

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Statement of comprehensive income based on average rates for the relevant years				
RMB	0.4594	0.4518	0.4826	0.5157
Statement of financial position based on closing rates at the respective reporting dates				
RMB	0.4521	0.4563	0.5081	0.5019

3. The Proforma Consolidated Statements of Financial Position together with notes thereon, have been prepared based on accounting principles and bases consistent with those adopted in the preparation of audited Consolidated Financial Statements of K-Star Sports to illustrate the Consolidated Statements of Financial Position of K-Star Sports Group assuming that all the transactions mentioned below had taken place on 31 December 2009:

Proforma I: Conversion of Convertible Loans

Assumed Conversion of Convertible Loans from the pre-initial public offering investors amounting to SGD1,500,000 and RM11,000,000, which is to be converted into an aggregate of 13,320,000 new ordinary shares in K-Star Sports.

The Conversion of the Convertible Loans was completed on 10 March 2010.

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3. The Proforma Consolidated Statements of Financial Position together with notes thereon, have been prepared based on accounting principles and bases consistent with those adopted in the preparation of audited Consolidated Financial Statements of K-Star Sports to illustrate the Consolidated Statements of Financial Position of K-Star Sports Group assuming that all the transactions mentioned below had taken place on 31 December 2009: (cont'd)

Proforma II: Public Issue

After proforma I and assumed Public Issue of 15,321,000 new ordinary shares ("Public Issue Shares"), representing 17.25% of the enlarged issued share capital of K-Star Sports, at an Issue Price of RM2.15 per share, payable in full on application, and will be allocated and allotted in the following manner:-

(a) Malaysian Public via balloting

3,401,000 Public Issue Shares, representing 3.83% of the enlarged issued share capital of K-Star Sports, to be allocated via balloting, will be made available for application by the Malaysian Public; and

(b) Selected investors via placement

11,920,000 Public Issue Shares, representing 13.42% of the enlarged issued share capital of K-Star Sports, by way of private placement to selected investors.

Proforma III: Utilisation of Proceeds from Public Issue

After proforma I and II and assumed K-Star Sports seeks a listing and quotation of its entire enlarged issued share capital comprising 88,800,000 ordinary shares on the Main Market of Bursa Securities ("the Listing"), the gross proceeds arising from the Public Issue amounting to RMB65,631,000 (RM32,940,000) are expected to be fully utilised for the core business of K-Star Sports Group in the following manner:

	RMB'000	RM'000
Expansion of production capacity	17,932	9,000
Expansion of sales and marketing network	9,962	5,000
Branding and advertising	5,977	3,000
Enhancement of product research and development capabilities	8,966	4,500
Estimated listing expenses *	11,955	6,000
General working capital	10,839	5,440
	65,631	32,940

The listing expenses are estimated at RMB11,955,000 (RM6,000,000) and will be set off against the share capital account and retained earnings account.

* Out of the total estimated listing expenses, RMB7,104,000 (RM3,565,000) has been paid by advances from the pre-initial public offering investors as at 31 December 2009. Subsequently, the advances are to be repaid to the pre-initial public offering investors.

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(ii) PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

4. The movement of the issued and paid-up share capital account is as follows:

	RMB'000	RM'000
As at 31 December 2009	189,268	96,905
Conversion of Convertible Loans	29,099	14,584
As per Proforma I	218,367	111,489
Public Issue	65,631	32,940
As per Proforma II	283,998	144,429
Utilisation of Proceeds from Public Issue – Listing expenses	(3,532)	(1,772)
As per Proforma III	280,466	142,657

5. The movement of the equity component – convertible loan account is as follows:

	RMB'000	RM'000
As at 31 December 2009	1,467	736
Conversion of Convertible Loans	(1,467)	(736)
As per Proforma I	-	-
Public Issue	-	-
As per Proforma II	-	-
Utilisation of Proceeds from Public Issue	-	-
As per Proforma III	-	-

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(ii) PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

6. The movement of the retained earnings is as follows:

	RMB'000	RM'000
As at 31 December 2009	213,787	105,572
Conversion of Convertible Loans	-	-
As per Proforma I	213,787	105,572
Public Issue	-	-
As per Proforma II	213,787	105,572
Utilisation of Proceeds from Public Issue – Listing expenses	(8,423)	(4,228)
As per Proforma III	205,364	101,344

7. The movement of the property, plant and equipment account is as follows:

	RMB'000	RM'000
As at 31 December 2009	62,570	31,404
Conversion of Convertible Loans	-	-
As per Proforma I	62,570	31,404
Public Issue	-	-
As per Proforma II	62,570	31,404
Utilisation of Proceeds from Public Issue – Construction of factory building and expansion of production capacity	8,289	4,160
As per Proforma III	70,859	35,564

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(ii) PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

8. The movement of the land use rights account is as follows:

	RMB'000	RM'000
As at 31 December 2009	9,048	4,541
Conversion of Convertible Loans	-	-
As per Proforma I	9,048	4,541
Public Issue	-	-
As per Proforma II	9,048	4,541
Utilisation of Proceeds from Public Issue	9,643	4,840
As per Proforma III	18,691	9,381

9. The movement of the cash and bank balances is as follows:

	RMB'000	RM'000
As at 31 December 2009	34,642	17,387
Conversion of Convertible Loans	-	-
As per Proforma I	34,642	17,387
Public Issue	65,631	32,940
As per Proforma II	100,273	50,327
Utilisation of Proceeds from Public Issue – Purchase of land, construction of factory building and expansion of production capacity	(17,932)	(9,000)
Utilisation of Proceeds from Public Issue – Listing expenses	(4,851)	(2,435)
As per Proforma III	77,490	38,892

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(ii) PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

10. The movement of the borrowings account is as follows:

	RMB'000	RM'000
As at 31 December 2009	42,932	21,548
Conversion of Convertible Loans	(27,632)	(13,869)
As per Proforma I	15,300	7,679
Public Issue	-	-
As per Proforma II	15,300	7,679
Utilisation of Proceeds from Public Issue	-	-
As per Proforma III	15,300	7,679

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(iii) STATEMENT OF ASSETS AND LIABILITIES

The following is a proforma group statement of assets and liabilities of K-Star Sports Group prepared based on the audited Consolidated Financial Statements of K-Star Sports Group as at 31 December 2009.

The proforma group statement of assets and liabilities is prepared for illustrative purpose only, to show the effects of all the transactions stated in Note 3 to the statement of assets and liabilities. The statement should be read in conjunction with the notes thereto.

	Note	Proforma Group RMB'000	RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	4	70,859	35,564
Land use rights	5	18,691	9,381
Total non-current assets		89,550	44,945
CURRENT ASSETS			
Inventories	6	11,006	5,524
Receivables	7	190,032	95,377
Fixed deposits with a licensed bank	8	900	452
Cash and bank balances	9	77,490	38,892
Total current assets		279,428	140,245
CURRENT LIABILITIES			
Payables	10	26,421	13,260
Borrowings	11	15,300	7,679
Income tax payable		8,027	4,029
Total current liabilities		49,748	24,968
NET CURRENT ASSETS		229,680	115,277
		319,230	160,222
SHARE CAPITAL	12	280,466	142,657
RESERVES	13	38,764	17,565
		319,230	160,222

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

1. FINANCIAL RISK MANAGEMENT OBJECTIVES - POLICIES

The Group's activities expose it to market risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The board of directors provides guidance for overall risk management as well as policies covering specific areas. Management analyses and formulates measures to manage the Group's exposure to financial risk in accordance with the objectives and underlying principles approved by the board of directors. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposures to market risk and financial risk are kept at a minimum level, the Group has not used any derivatives or other financial instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(i) Market risk - Interest rate risk

The Group is exposed to interest rate risk primarily from its interest-bearing borrowings. The Group ensures that it is not exposed to significant fluctuation in future cash flow arising from changes in market interest rates by maintaining its borrowings largely in fixed-rate instruments.

The Group has no significant interest-bearing assets except deposits with financial institution.

The Group monitors the interest rates and ensures favourable rates are obtained from the deposits with financial institution.

(ii) Market risk - Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has currency exposures arising from balances that are denominated in a currency other than the functional currency, primarily Singapore Dollar ("SGD), United States Dollar ("USD") and Malaysia Ringgit ("RM").

The Group has no significant currency exposure for the financial year ended 31 December 2006 and 2007.

The Group's currency exposure for the financial year ended 31 December 2008 arises from the convertible loan which is denominated in SGD and amounted to RMB 3,045,000.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

1. FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONT'D)

(ii) Market risk - Currency risk (cont'd)

The Group's currency exposure for the financial year ended 31 December 2009 arises from the convertible loans and bank balances which are denominated in SGD, USD and RM. The currency exposures of the net financial liabilities denominated in SGD and USD are RMB7,185,000 and RMB21,873,000 respectively; and the currency exposure of the net financial assets denominated in RM is RMB 20,483,000.

Sensitivity analysis for currency risk
If SGD, USD and RM change against the RMB by 10% (FYE 2008: 10%) with other variables being held constant, the effects arising from the net financial liability/ asset position will be as follows:

	As at 31 December			
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Group and Company				
SGD against RMB				
- Strengthened	-	-	305	841
- Weakened	-	-	(304)	(619)
USD against RMB				
- Strengthened	-	-	-	(2,042)
- Weakened	-	-	-	2,053
RM against RMB				
- Strengthened	-	-	-	2,209
- Weakened	-	-	-	(2,170)

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations. Credit risk of the Group arises primarily from the Group's trade receivables.

The Group's exposure to credit risks is restricted by credit limits that are approved by the general manager. The Group typically allows the existing customers' credit terms of up to 3 months. In deciding whether credit shall be extended, the Group will take into consideration factors such as the relationship with the customer, its payment history and creditworthiness. In relation to new customers, the sales and marketing department will prepare credit proposals for approval by the general manager.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

1. FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONT'D)

(iii) Credit risk (cont'd)

The Group performs on-going credit evaluation of its customers' financial position. The concentration of credit risk from the Group's trade receivables is 60% (comprising of 5 customers), 47% (comprising 5 customers), 35% (comprising 5 customers) and 29 (comprising 5 customers) as at 31 December 2006, 2007, 2008 and 2009 respectively.

As the Group does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the audited consolidated statement of financial position.

The Group's major classes of financial assets are bank deposits, trade and other receivables.

There is no receivable that is past due and /or impaired. No impairment loss was recognised in the statement of comprehensive income as most of the receivables were subsequently received.

Bank deposits are mainly deposits with reputable banks. Trade receivables are mainly customers of good credit-standing.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's financial liabilities are expected to mature within 1 year from the reporting dates, except for convertible loans, which are expected to mature within 2 years from the reporting dates. The contractual undiscounted cash flows of the financial liabilities approximate their carrying amounts.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The audited Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including related interpretations and have been consistently applied throughout the FYE 31 December 2006, 2007, 2008 and 2009.

2.2 Basis of preparation of audited Consolidated Financial Statements

The Group has early adopted IFRSs and interpretations which are effective for accounting periods after 1 January 2006 for the preparation of these audited Consolidated Financial Statements of the Group since 1 January 2006. IFRS 1, First-time Adoption of Financial Reporting Standards, has been applied in preparing these audited Consolidated Financial Statements. These audited Consolidated Financial Statements are the first set of financial statements prepared in accordance with IFRS by the Group.

The Consolidated Financial Statements have been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies set out below and have been applied consistently to all periods presented in these Consolidated Financial Statements and in preparing an opening IFRS balance sheet as at 1 January 2006 for the purpose of the first set of IFRS financial statements. The accounting policies have been applied consistently by the Group.

On 1 January 2009, the Group adopted the accounting standards that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective accounting standards. The following are the relevant accounting standards adopted by the Group:

- IAS 1 (Revised 2008) affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. This standard has been applied retrospectively. The adoption of the standard does not affect the financial position or profits of the Group but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however some items that were reported directly in equity are now reported in other comprehensive income.
- IAS 23 (Revised) (Borrowing Costs) requires the capitalisation of interest on borrowings made to acquire, construct or produce a qualifying asset. The amendments are to be applied for annual periods beginning on or after 1 January 2009.
- Amendments to IAS 27 Consolidated and Separate Financial Statements and Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" dealt with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting International Financial Reporting Standards (IFRSs) for the first time. The amendments to IAS 27 and IFRS 1 are effective for annual periods beginning on or after 1 January 2009. The adoption of the amendments did not resulted in a material impact on the Group's financial statements.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

On 1 January 2009, the Group adopted the accounting standards that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective accounting standards. The following are the relevant accounting standards adopted by the Group: (cont'd)

- The Group also adopted IFRS 8 Operating Segments, which replaces IAS 14 Segment Reporting. The standard was applied retrospectively. The adoption of this standard has not affected the identified operating segments for the Group. However, the accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In contrast, IAS 14 required the Group to identify two sets of segments (business and geographical) based on risks and rewards of the operating segments. The adoption of the accounting standards did not resulted in any material changes to the operating segments disclosed.

- The IASB published Amendments to IFRS 7 (Financial Instruments: Disclosures) Improving Disclosures about Financial Instruments. These amendments to IFRS 7 require enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurement by level of a fair value measurement hierarchy. These amendments are to be applied for annual periods beginning on or after 1 January 2009. The adoption of the amendment resulted in additional disclosures but did not have an impact on the accounting policies and measurement bases adopted by the Group.

- In May 2008, the IASB published amendments – mainly of a terminological or editorial nature – to a number of International Financial Reporting Standards as part of its "Annual Improvements" project. The amendments are to be applied for the first time for annual periods beginning on or after 1 January 2009. The adoption of these amendments did not resulted any material changes to the way the operating segments are disclosed.

At the date of preparation of the Consolidated Financial Statements, certain new or revised accounting standards were issued and effective for financial period beginning after 1 January 2010 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting these accounting standards that are relevant to the Group is set out below:

- IFRIC 17 (Distributions of Non-cash Assets to Owners) defines when an obligation to distribute a non-cash dividend is to be recognised and specifies that it must be measured at fair value and that the difference between the dividends paid and the carrying amount of the net assets distributed must be recognised in profit or loss at the distribution date. The Group will apply IFRIC 17 from 1 January 2010 but it is not expected to result in any material impact to the financial statements.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

At the date of preparation of the Consolidated Financial Statements, certain new or revised accounting standards were issued and effective for financial period beginning after 1 January 2010 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting these accounting standards that are relevant to the Group is set out below: (cont'd)

- IFRS 3 (revised 2009) requires non-controlling interest to be measured either at fair value (i.e. including goodwill) or at the proportionate share of the identifiable net assets of the entity. In the case of a step acquisition, the acquirer must remeasure its previously held interest at fair value on the date on which it gains control of the acquiree and recognise the resulting gain or loss in income. The difference between the (remeasured) carrying amount of the interest in the subsidiary and the acquirer's remeasured proportionate share of the net assets of the subsidiary must be recognised as goodwill. Liabilities recognised as of the acquisition date for the purpose of future purchase price adjustments in light of future events can no longer be offset against goodwill in subsequent periods. Ancillary acquisition costs must be recognised in income. The Group will apply IFRS 3 (revised 2009) prospectively to all business combinations from 1 January 2010.

- IAS 27 (revised 2009) requires reduction in the equity interest held in a subsidiary that does not result in a loss of control by the parent to be accounted for as an equity transaction. If a reduction in the equity interest held in a subsidiary involves a loss of control, the assets and liabilities of the subsidiary must be derecognised in their entirety. The remaining interest in the company is to be recognised at fair value. The difference between the remaining carrying amounts and the fair values must be recognised in income. Non-controlling interests that become negative due to incurred losses must be recognised at their net negative amounts. The Group will apply IAS 27 (revised 2009) prospectively to transactions with minority interests from 1 January 2010.

The directors are in the process of assessing the impact of other IFRS upon initial application. So far, the directors have preliminary concluded that the initial application of these IFRS are unlikely to have a significant impact on the Group's results and financial position.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Critical accounting estimates and judgements (cont'd)

The Group makes estimates and assumptions concerning the future. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Key sources of estimation uncertainty

Income taxes

The Group has exposure to income tax arising from their operations in the PRC. Significant judgement is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax expense and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable as at 31 December 2006, 2007, 2008 and 2009 amounted to RMB1,813,000, RMB4,379,000, RMB4,687,000 and RMB8,027,000 respectively.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management determines the estimated useful lives of property, plant and equipment to be within 5 to 20 years. The carrying amounts of the Group's property, plant and equipment as at 31 December 2006, 2007, 2008 and 2009 were approximately RMB30,896,000, RMB44,899,000 RMB53,494,000, and RMB62,570,000 respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised. A 5% difference in the expected useful lives of the property, plant and equipment would not result in a significant change to the Group's net profit for the respective financial years.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Critical judgement made in applying accounting policies

In the process of applying the Group's accounting policies as described below, management is of the opinion that there are no instances of application of judgements which are expected to have a significant effect on the amounts recognised in the audited Consolidated Financial Statements.

Allowance for bad and doubtful debts
Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgments and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed.

The accounting polices used by the Group have been applied consistently to all periods presented in these financial statements.

Consolidation

The Consolidated Financial Statements of the Group include the financial statements of the Company and its subsidiary made up to the end of the financial year.

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 profit or loss from the effective date in which control is transferred to the Group or in which control ceases, respectively.

Acquisitions of subsidiaries are 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 minority interest.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Common control business combination

A business combination involving entities under common control is a business combination in which all the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The Acquisition resulted in a business combination involving common control entities, and accordingly the accounting treatment is outside the scope of IFRS 3. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the Consolidated Financial Statements.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs are included in the Consolidated Financial Statements of the Group as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the Group. Therefore, the Group recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts as if such Consolidated Financial Statements had been prepared by the controlling party, including adjustments required for conforming to the Group's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. Any difference between the paid-up capital of the Company and the amount of share capital acquired is adjusted against equity. The effect of all transactions and balances between combining entities, whether occurring before or after the combination, are eliminated in preparing the Consolidated Financial Statements of the Group.

Subsidiary

Subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether there is control.

Shares in a subsidiary are stated at cost less allowance for impairment losses, if any, on an individual subsidiary basis. The purchase method of accounting is used to account for the acquisition of subsidiary. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of minority interest.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Subsidiary (cont'd)

For acquisition of subsidiary under common control, the identifiable assets and liabilities were accounted for at their carrying values, in a manner similar to the pooling-of-interest method of consolidation.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of these assets over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 -10 years
Renovation	5 years

No depreciation is provided on construction-in-progress.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date as a change in estimates.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Land use rights

Land use rights are recognised at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the statement of comprehensive income, using the straight-line method, so as to write off the cost of land use rights, over the lease term of the land of 50 years.

The amortisation period and amortisation methods for land use rights are reviewed and adjusted as appropriate at each statement of financial position date.

Land use rights represent up-front payments to acquire long-term interests in the usage of land.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets subject to impairment are reviewed at each financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Impairment of non-financial assets (cont'd)

Any impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to equity.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each financial position date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Financial assets (cont'd)

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

Other than loans and receivables, the Group does not have other categories of financial assets.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the financial position date. These are classified as non-current assets.

Loans and receivables include trade and other receivables. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or writeback is recognised in the income statement.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on first-in, first-out basis, and includes all costs in brining the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and dividend payable.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance cost" in the income statement. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within twelve months after the balance sheet are included in current borrowings in the balance sheet even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the financial position date. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the financial position date are included in non-current borrowings in the balance sheet.

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

When convertible loans are issued at fair value, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible loan; this amount is recorded as a non-current liability on an amortised cost basis until extinguished on conversion or maturity of the loan. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity. The carrying amount of the conversion option is not changed in subsequent periods.

When a conversion option is exercised, the carrying amount of the conversion option will be taken to share capital. When the conversion option is allowed to lapse, the carrying amount of the conversion option will be taken to retained profits.

Dividend distributions to shareholders are included in current financial liabilities when the dividends are payable.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Provisions

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Present obligations arising from onerous contracts are recognised as provisions.

The provision is based on the best estimate of the direct expenditures to be incurred which are both necessarily entailed by the restructuring and not associated with the on-going activities of the Group.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of the time is recognised as finance costs.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income is recognised on a time-apportioned basis using the effective interest method.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction of buildings. This includes those costs on borrowings acquired specifically for the construction of buildings, as well as those in relations to general borrowings used to finance the construction of buildings.

Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction expenditures that are financed by general borrowings.

Employee benefits – Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiary of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the statement of comprehensive income as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and (certain managers) are considered as key management personnel.

Income tax

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the financial position date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Income tax (cont'd)

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

i. at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the financial position; and

ii. based on the tax consequence that will follow from the manner in which the Group expects, at the date of the financial position, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Value-added tax ("VAT")

The Group's sales of goods in the PRC are subject to VAT at the applicable tax rate of 17% for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the statement of financial position.

Revenue, expenses and assets are recognised net of the amount of VAT except:

(i) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) receivables and payables that are stated with the amount of VAT included.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Functional currencies

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 (the "functional currency"). The Consolidated Financial Statements of the Group are presented in Renminbi.

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 the income statement, 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 the 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.

Group entities
The results and financial positions of all the entities (none of which has the currency of a hyperinflationary economy) within the Group that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(1) Assets and liabilities are translated at the closing exchange rates at the reporting dates;

(2) 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 using the exchange rates at the dates of the transactions); and

(3) All resulting currency translation differences are recognised in the currency translation reserve in equity.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Research and development costs

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Operating leases

Rentals on operating leases are charged to income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the income statement when incurred.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management who is responsible for allocating revenue and assessing performance of the operating segments.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital amount.

Retained earnings include all current and prior period results as determined in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank deposits pledged.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

3. LISTING SCHEME

As an integral part of the listing and quotation of its entire enlarged issued share capital of K-Star Sports, K-Star Sports undertook the listing scheme that was approved by the SC on 20 January 2010 which involves the following:

(i) **Acquisition of Fujian Jinjiang Dixing Shoes Plastics Co., Ltd. ("Fujian Dixing")**

The Company acquired the entire issued and paid-up share capital of Fujian Dixing, amounting to RMB15,111,752 for an aggregate purchase consideration of RMB189,268,000, which was wholly satisfied by the issuance of an aggregate of 60,158,999 new ordinary shares in K-Star Sports, credited as fully paid ("Acquisition").

The Acquisition was completed on 9 September 2009.

(ii) **Conversion of Convertible Loans**

Conversion of convertible loans from the pre-initial public offering investors amounting to SGD1,500,000 and RM11,000,000, which is to be converted to an aggregate of 13,320,000 new ordinary shares in K-Star Sports ("Conversion of Convertible Loans").

The Conversion of the Convertible Loans was completed on 10 March 2010.

(iii) **Public Issue**

Public Issue of 15,321,000 new ordinary shares ("Public Issue Shares"), representing 17.25% of the enlarged issued share capital of K-Star Sports, at an Issue Price of RM2.15 per share, payable in full on application, and will be allocated and allotted in the following manner:

(a) **Malaysian Public via balloting**

3,401,000 Public Issue Shares, representing 3.83% of the enlarged issued share capital of K-Star Sports, to be allocated via balloting, will be made available for application by the Malaysian Public; and

(b) **Selected investors via placement**

11,920,000 Public Issue Shares, representing 13.42% of the enlarged issued share capital of K-Star Sports, by way of private placement to selected investors.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

3. LISTING SCHEME (CONT'D)

(iv) Utilisation of Proceeds from Public Issue

K-Star Sports seeks a listing and quotation of its entire enlarged issued share capital comprising 88,800,000 ordinary shares on the Main Market of Bursa Securities ("the Listing").

The gross proceeds arising from the Public Issue amounting to RMB65,631,000 (RM32,940,000) are expected to be fully utilised for the core business of K-Star Sports Group in the following manner:

	RMB'000	RM'000
Expansion of production capacity	17,932	9,000
Expansion of sales and marketing network	9,962	5,000
Branding and advertising	5,977	3,000
Enhancement of product research and development capabilities	8,966	4,500
Estimated listing expenses *	11,955	6,000
General working capital	10,839	5,440
	65,631	32,940

The listing expenses are estimated at RMB11,955,000 (RM6,000,000) and will be set off against the share capital account and retained earnings account.

* Out of the total estimated listing expenses, RMB7,104,000 (RM3,565,000) has been paid by advances from the pre-initial public offering investors as at 31 December 2009. Subsequently, the advances are to be repaid to the pre-initial public offering investors.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

4. PROPERTY, PLANT AND EQUIPMENT

	Buildings		Plant and machinery		Furniture, fixtures and office equipment		Motor vehicles		Renovation		Construction-in-progress		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Proforma Group														
Cost														
Balance as at 31.12.2009	56,959	28,588	8,720	4,376	675	339	4,010	2,013	834	419	3,840	1,927	75,038	37,662
Additions [Note 3 (iv)]	-	-	4,145	2,080	-	-	-	-	-	-	4,144	2,080	8,289	4,160
Carried forward	56,959	28,588	12,865	6,456	675	339	4,010	2,013	834	419	7,984	4,007	83,327	41,822
Accumulated Depreciation														
Balance as at 31.12.2009	7,402	3,715	3,471	1,742	299	150	1,115	560	181	91	-	-	12,468	6,258
Carried forward	7,402	3,715	3,471	1,742	299	150	1,115	560	181	91	-	-	12,468	6,258
Net carrying amount	49,557	24,873	9,394	4,714	376	189	2,895	1,453	653	328	7,984	4,007	70,859	35,564

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

5. LAND USE RIGHTS

	Proforma Group	
	RMB'000	RM'000
Cost		
Balance b/f	9,834	4,935
Additions [Note 3 (iv)]	9,643	4,840
Carried forward	19,477	9,775
Accumulated amortisation		
Balance b/f	(786)	(394)
Net carrying amount	18,691	9,381

6. INVENTORIES

	Proforma Group	
	RMB'000	RM'000
Raw materials	291	146
Work-in-progress	2,302	1,156
Finished goods	8,413	4,222
	11,006	5,524

7. RECEIVABLES

	Proforma Group	
	RMB'000	RM'000
Trade receivables	164,857	82,742
Other receivables	7,254	3,641
Prepayments	17,921	8,994
	190,032	95,377

8. FIXED DEPOSITS WITH A LICENSED BANK

The fixed deposits have been pledged to a licensed bank to secure the bank borrowings.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

9. CASH AND BANK BALANCES

	Proforma Group	
	RMB'000	RM'000
Cash in hand	364	183
Cash at bank	77,126	38,709
	77,490	38,892

Cash and bank balances are denominated in the following currencies:

	Proforma Group	
	RMB'000	RM'000
Renminbi	34,642	17,387
Ringgit Malaysia (assumed proceeds from Conversion of Convertible Loans and remaining listing proceeds after Utilisation of Listing Proceeds)	42,848	21,505
	77,490	38,892

10. PAYABLES

	Proforma Group	
	RMB'000	RM'000
Trade payables	18,076	9,072
Accrued liabilities	2,842	1,426
Other payable	2,503	1,256
Bills payable	3,000	1,506
	26,421	13,260

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

11. BORROWINGS

	Proforma Group	
	RMB'000	RM'000
Short term bank loans - secured	15,300	7,679

12. SHARE CAPITAL

	Proforma Group	
	RMB'000	RM'000
Issued and fully paid:-		
Ordinary shares	189,268	96,905
Conversion of Convertible Loans	29,099	14,584
Public Issue	65,631	32,940
Estimated listing expenses	(3,532)	(1,772)
88,800,000 ordinary shares	280,466	142,657

@ Less than RMB/RM1,000

13. RESERVES

	Proforma Group	
	RMB'000	RM'000
Retained earnings	213,787	105,572
Statutory reserve	7,556	3,460
Merger deficit	(174,156)	(89,932)
Exchange fluctuation reserve	-	2,693
Estimated listing expenses	(8,423)	(4,228)
	38,764	17,565

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

14. SIGNIFICANT EVENTS DURING THE STATEMENT OF FINANCIAL POSITION DATE

The Company acquired the entire issued and paid-up share capital of Fujian Dixing amounted to RMB15,111,752 for an aggregate purchase consideration of RMB189,268,000, which was wholly satisfied by the issuance of an aggregate of 60,158,999 new ordinary shares in K-Star Sports, credited as fully paid ("Acquisition").

The Acquisition was completed on 9 September 2009.

15. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of all financial assets and liabilities with a maturity of less than one year approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at statement of financial position date would be significantly different from the values that would eventually be received or settled.

16. OPERATING LEASE COMMITMENTS

The Group leases office premises and billboard space from non-related parties under operating lease agreement. The future minimum lease payables under payables under operating lease contracted for at the date of the statement of financial position but not recognised as liabilities are as follows:-

	Proforma Group	
	RMB'000	RM'000
Not later than one year	822	413
Later than one year and not later than five years	1,351	678
	2,173	1,091

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

17. NET TANGIBLE ASSETS AND NET ASSETS PER ORDINARY SHARE

Based on the proforma group statement of assets and liabilities of K-Star Sports as at 31 December 2009, the proforma net tangible assets ("NTA") and net assets ("NA") per share is calculated as follows:-

	Proforma Group	
	RMB'000	**RM'000**
Proforma NTA as per group statement of assets and liabilities	319,230	160,222
Proforma NA as per group statement of assets and liabilities	319,230	160,222
Total number of fully issued and paid-up ordinary share assumed to be issued ('000)	88,800	88,800
	RMB	**RM**
Proforma NTA per ordinary share	3.59	1.80
	RMB	**RM**
Proforma NA per ordinary share	3.59	1.80

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(iv) PROFORMA CONSOLIDATED CASH FLOW STATEMENTS

The following is the Proforma Consolidated Cash Flow Statements of K-Star Sports Group prepared for illustrative purpose based on the audited Consolidated Financial Statements of K-Star Sports for the FYE 31 December 2009 assuming that K-Star Sports's Group has been in existence throughout the financial year under review.

Years ended	31 December 2008		31 December 2009	
	RMB'000	RM'000	RMB'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	102,488	49,461	110,407	57,052
Adjustments for:-				
Depreciation of property, plant and equipment	2,497	1,205	2,918	1,505
Amortisation of land use rights	197	95	197	102
Property, plant and equipment written off	33	17	-	-
Interest expenses	843	407	565	291
Gain on disposal of property, plant and equipment	-	-	(36)	(18)
Interest income	(57)	(28)	(73)	(38)
Listing expenses written off	-	-	8,423	4,228
Operating profit before working capital changes	106,001	51,157	122,401	63,122
Changes in working capital:-				
(Increase)/Decrease in inventories	(11,622)	(5,905)	8,401	4,218
Increase in receivables	(54,309)	(27,594)	(87,628)	(43,881)
Increase/(Decrease) in payables	12,748	6,477	(7,815)	(3,922)
Cash generated from operations	52,818	24,135	35,359	19,537
Interest received	57	28	73	38
Interest paid	(843)	(407)	(565)	(291)
Income tax paid	(24,941)	(12,037)	(27,182)	(13,990)
Net cash from operating activities	27,091	11,719	7,685	5,294
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment				
- by working capital	(11,125)	(5,369)	(12,038)	(6,208)
- by listing proceeds	-	-	(8,289)	(4,160)
Proceed from disposal of property, plant and equipment	-	-	80	41
Downpayment for purchase of land	-	-	(7,200)	(3,713)
Acquisition of land use rights	-	-	(9,643)	(4,840)
Net cash used in investing activities	(11,125)	(5,369)	(37,090)	(18,880)

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SJ Grant Thornton

K-STAR SPORTS LIMITED

(Incorporated in Singapore under Singapore Companies Act – Company No: 200820976H)
(Registered as a foreign company in Malaysia under Companies Act 1965 of Malaysia – Malaysia Branch No: 995214 D)

AND ITS SUBSIDIARY COMPANY

(iv) PROFORMA CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

Years ended	31 December 2008		31 December 2009	
	RMB'000	RM'000	RMB'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Listing proceed through Public Issue	-	-	65,631	32,940
Proceed from convertible loans	3,045	1,470	26,054	13,436
Payment of dividends	(7,763)	(3,746)	-	-
Payment of listing expenses	-	-	(4,851)	(2,435)
Proceed of bank borrowings	8,000	3,861	19,300	10,003
Repayment of bank borrowings	(10,600)	(5,116)	(12,000)	(6,188)
(Increase)/Upliftment of fixed deposits pledged	(830)	(401)	2,320	1,196
Net cash (used in)/from financing activities	(8,148)	(3,932)	96,454	48,952
Effect of foreign exchange translation	-	1,555	-	(1,715)
CASH AND CASH EQUIVALENTS				
Net increase	7,818	3,973	67,049	33,651
Brought forward:-				
As previously reported	2,623	1,197	10,441	5,306
Effect of exchange rate changes	-	136	-	(65)
As restated	2,623	1,333	10,441	5,241
Carried forward	10,441	5,306	77,490	38,892

The Proforma Consolidated Cash Flow Statements have been prepared based on the audited Consolidated Financial Statements of K-Star Sports as at 31 December 2009, with the assumption that Conversion of Convertible Loans, Public Issue and Utilisation of Proceeds have been completed.

The Proforma Consolidated Cash Flow Statements have been prepared based on accounting principles and basis consistent with those normally adopted in the preparation of audited Consolidated Financial Statements of K-Star Sports.

end of report

Stamped for the purpose of identification on:
07 APR 2010
SJ Grant Thornton

7.4 LIQUIDITY AND CAPITAL RESOURCES

7.4.1 Working capital

Our operations are funded by a combination of internal and external source of funds. Internal sources of funds comprise mainly cash generated from our operations, cash and bank balances while external source of funds comprise mainly borrowings from banks and capital contribution from shareholders.

The principal use of these funds are for working capital purposes such as purchases of raw materials and consumables, financing of trade receivables and operating expenses, capital expenditure, repayment of loans and advances, and payment of dividend to shareholders.

As at 31 December 2009, our Group has bank deposits, cash and bank balances of RMB35.5 million (including deposits of RMB0.9 million pledged with banks as security against bills payable) and total borrowings of RMB42.9 million. Our Group has a net working capital of RMB166.3 million as at 31 December 2009.

As at the Latest Practicable Date, we had total borrowings of RMB9.3 million and, cash and bank balances of RMB44.8 million (including deposits of RMB1.8 million pledged with banks as security against bills payable and other banking facilities).

We set out the proforma consolidated cashflow statements of our Group for FYE 2008 and FYE 2009:

	FYE 2008		FYE 2009	
	RMB'000	**RM'000**	**RMB'000**	**RM'000**
Net cash from operating activities	27,091	11,719	7,685	5,294
Net cash used in investing activities	(11,125)	(5,369)	(37,090)	(18,880)
Net cash (used in)/from financing activities	(8,148)	(3,932)	96,454	48,952
Effect of foreign exchange translation	-	1,555	-	(1,715)
Net increase in cash and cash equivalents	7,818	3,973	67,049	33,651
Cash and cash equivalent at beginning of the financial year	2,623	1,197	10,441	5,306
Effect of exchange rate changes	-	136	-	(65)
Cash and cash equivalent at end of the financial year	10,441	5,306	77,490	38,892

Our cash and cash equivalents are held substantially in RMB. For further information on the legal and financial restrictions on the ability of our subsidiary to transfer funds to K-Star in the form of cash dividends, loans or advances, please refer to Appendix D and E for the Experts' Report pertaining to policies on foreign investments and repatriations of profits applicable to the PRC and Singapore. In particular, kindly note that in the PRC, foreign investment enterprises ("FIE") are not allowed to transfer funds abroad in foreign exchange to its investors in the form of loans or advances. Subject to the above and the legal and financial requirements set out in Appendix D and E, our Directors are of the opinion that there are no economic restrictions on the ability of our subsidiaries to transfer funds to K-Star in the form of cash dividends, loans or advances and are therefore confident that we can meet our cash obligations.

Brief commentaries on our proforma consolidated cashflow statement for the FYE 2008 and FYE 2009 are set out below.

Net cash generated from operating activities

For the FYE 2008, our proforma net cash inflow from operating activities was RMB27.1 million, which comprised operating cash flows before working capital change of RMB106.0 million partially offset by net working capital outflow of RMB53.2 million, interest paid of RMB0.8 million and income tax paid of RMB24.9 million. The net working capital outflow was attributed to an increase in trade and other receivables of RMB47.3 million, increase in inventories of RMB11.6 million, increase in other current assets of RMB7.0 million and partially offset by an increase in trade and other payables of RMB12.7 million, which were generally in line with the increase in revenue and expansion in business activities.

For the FYE 2009, our proforma net cash inflow from operating activities was RMB7.7 million, which comprised operating cash flows before working capital change of RMB122.4 million partially offset by net working capital outflow of RMB87.0 million, interest paid of RMB0.5 million and income tax paid of RMB27.2 million. The net working capital outflow was mainly due to an increase in trade and other receivables of RMB80.7 million, increase in other current assets of RMB6.9 million, decrease in trade and other payables of RMB7.8 million and partially offset by a decrease in inventories of RMB8.4 million.

Net cash used in investing activities

For the FYE 2008, our proforma net cash flow used in investing activities amounted to RMB11.1 million, which comprised payment of property, plant and equipment, in which approximately RMB9.8 million was paid for the construction of a new building to be used jointly as the corporate administration office cum management dormitory with an approximate built-in area of 6,000 square metres at Jiangtou Industry Zone, Chendai Town, Jinjiang City, Fujian Province, PRC. A further RMB0.6 million was paid for the renovation costs of our convention hall. The balance of RMB0.7 million was utilised to acquire lift at production building, machineries, furniture, fittings and office equipment.

For the FYE 2009, our proforma cash flow used in investing activities amounted to RMB37.1 million. In FYE 2009, we have made downpayment of RMB7.2 million for purchase of land and acquired property, plant and equipment of RMB12.0 million which comprised mainly RMB9.3 million for the construction of the abovementioned corporate administration office cum management dormitory and another new staff dormitory building as well as RMB2.3 million for acquisition of motor vehicles. For proforma purposes, we have also accounted for the acquisition of additional property, plant and equipment, and land use rights of RMB9.6 million and RMB8.3 million respectively as set out in Section 3.7 on utilisation of proceeds in this Prospectus.

Net cash (used in)/generated from financing activities

For the FYE 2008, we had proforma net cash outflow of RMB8.1 million from financing activities mainly due to net repayment of bank borrowings amounting to RMB2.6 million, increase in pledged deposits of RMB0.8 million and payment of dividends of RMB7.8 million, which was partially offset by proceeds from convertible loan of RMB3.1 million.

For the FYE 2009, we had proforma net cash inflow of RMB96.5 million from financing activities. In FYE 2009, our pledged deposits decreased by RMB2.3 million and our net proceed from bank borrowings increased by RMB7.3 million, and proceeds from convertible loan of RMB26.1 million resulted in aggregate cash inflow of RMB35.7 million. For proforma purposes, we have also taken into account the listing proceed through Public Issue of RMB65.6 million which was partially offset by payment of listing expenses of RMB4.8 million.

Our Board is of the opinion that our Group will have sufficient working capital for a years of 12 months from the date of this Prospectus after taking into account the positive cash flow generated from our operations, the existing cash and cash equivalents and banking facilities available to our Group, our net proceeds from Public Issue and Convertible Loans and the expected utilisation of our proceeds from Public Issue.

7.4.2 Borrowings

As at the Latest Practicable Date, our total outstanding short-term borrowings of approximately RMB9.3 million, all of which are interest bearing, are as follows:

	RMB'000	**RM'000**
Bank borrowings (RMB denominated)	9,300	4,401

The bank borrowings are repayable within one year and bears an effective interest rate of 5.61% as at the Latest Practicable Date.

Our gearing ratio is 0.04 times, which is computed based on our outstanding borrowings of RMB9.3 million as at the Latest Practicable Date divided by our proforma shareholders' equity as at FYE 2009 of RMB237.9 million.

The Directors and the key management of the Company confirms that they have not defaulted on any payments of interest and/or principal sums on any borrowings throughout FYE 2008 and FYE 2009 and up to the date of this Prospectus.

To the best of our Directors' knowledge, we are not in breach of any of the terms and conditions or covenants associated with any credit arrangement or bank loans which could materially affect our financial position and results of business operations or the investment by holders of securities in our Group.

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7.4.3 Capital Expenditure

Our Group's capital expenditure for the Financial Years under Review are as follows:

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Building [(1)]	-	-	5,973	2,699	121	58	-	-
Plant and machinery [(2)]	2,646	1,216	-	-	294	142	49	25
Furniture, fixtures and office equipment	-	-	9	4	291	140	136	70
Motor vehicles	-	-	270	122	6	3	2,259	1,165
Renovation [(3)]	-	-	-	-	580	280	254	131
Construction – in-progress [(4)]	-	-	10,000	4,518	9,833	4,746	9,340	4,817
Land use rights [(5)]	9,384	4,311	-	-	-	-	-	-
	12,030	5,527	16,252	7,343	11,125	5,369	12,038	6,208

Notes:

(1) This relates mainly to the construction cost for an additional built-in area of 3,956 square metres of production facilities at the Main Factory Building in FYE 2007

(2) The acquisition of plant and machinery were mainly related to the addition of plant and machinery to increase our production capacity. Please refer to the Section 6.8 of this Prospectus for details.

(3) This relates to the cost incurred for the renovation of the convention hall.

(4) This relates to the construction of a new building to be used jointly as the corporate administration office cum management dormitory with an approximate built-in area of 6,000 square metres and an employee dormitory at Jiangtou Industry Zone, Chendai Town, Jinjiang City, Fujian Province, PRC. The corporate administration office cum management hostel was reclassificed to building upon completion in FYE 2009.

(5) This relates mainly to the acquisition of land use rights in respect of the land located in Jiangtou Industry Zone, Chendai Town, Jinjiang City, Fujian Province, PRC.

The acquisitions of these assets above were financed mainly through cash generated from operations.

7.4.4 Material commitments

As at the Latest Practicable Date, our Group does not have any material commitments.

Save as disclosed in Section 5.10 of this Prospectus, we do not have other material plans on capital commitments as at the Latest Practicable Date.

7.4.5 Contingent liabilities

As at the Latest Practicable Date, our Directors are not aware of any contingent liabilities which, upon becoming effective, may have a material impact on our profit or net assets.

7.4.6 Material litigation

Neither we nor our subsidiaries are engaged in any litigation or arbitration, either as plaintiff or defendant which will have a material effect on our financial position and our Directors do not know of any proceedings pending or threatened or any fact likely to give rise to any proceedings which might materially and adversely affect our position or business.

7.4.7 Key financial ratios of our Group

The key financial ratios of our Group based on the FYE 2009 are as follows:

Trade receivables	:	RMB164.9 million
Trade receivables turnover period	:	Approximately 80 days
Trade payables	:	RMB18.1 million
Trade payables turnover period	:	Approximately 16 days
Inventory turnover period	:	Approximately 13 days

Further details on the key financial ratios are set out in Section 8 of this Prospectus.

7.4.8 Off-Balance sheet arrangements

Our Group does not have any off-balance sheet arrangements which are reasonably likely to have a current or future material effect on our financial condition, change in financial condition, revenues or expenses, results of operations, capital expenditures or capital resources.

7.4.9 Foreign exchange exposure

Our reporting currency is in RMB and all our operations are carried out in the PRC. During the Financial Years under Review, all of our sales and purchases are denominated in the RMB. Our products are sold to the PRC Exporters who in turn distribute to local wholesalers and retailers are all transacted in RMB currency. As such, the PRC Exporters who took over the ownership of the products would bear the foreign exchange exposure. Accordingly, the foreign exchange exposure of our Group is minimal.

Currently, we do not have any hedging policy with respect to foreign exchange exposure and we did not use any financial instruments for hedging purposes during the Financial Years under Review and up to the Latest Practicable Date. We will monitor our foreign currency exposure closely and will consider hedging any material foreign exposure should the need arise. Our CFO will monitor our Group's foreign exchange exposures and propose the need for hedging transactions where necessary. We will seek the approval of our Audit Committee prior to the use of any financial instruments for hedging purposes.

7.4.10 Credit management

We generally offer credit terms of 60 days for the Export Distributors and 90 days for the Authorised Regional Dealers. For new customers, they are usually required to pay a deposit of 30% of the order value and no credit terms are granted. The credit terms we extend to every customer may differ as we will take into account, *inter alia*, the quantity of the customer order, background and creditworthiness of the customer, level of risk involved, payment history of the customer and the business relationship we have with the customer. Our Executive Chairman and CEO, Ding Jianping, approves the credit terms and limits extended to each customer.

Our finance team, specifically our Chief Financial Officer and/or finance manager, monitors all outstanding trade debts. If a customer fails to issue payment on our invoice within the credit term granted, our sales personnel will contact the customer to follow up on the payment status of the overdue debt. If we are still unable to collect payment, we may proceed to issue a letter of demand to the customer and may ultimately consider legal action, depending on the materiality of the debt and our relationship with the customer. We will make specific provision in the event that the recovery of any debt appears doubtful. The quantum of such provision is dependent on the duration for which the debt is overdue as well as our assessment of the likelihood that such debt may be unrecoverable. We would write off a debt upon identifying the debt as unrecoverable and as approved by a special committee comprising our Executive Chairman, CFO and sales manager in charge of the particular transaction.

For the Financial Years under Review, we did not experience any significant specific allowances for doubtful trade debts or bad debts written off.

Our average trade receivables turnover for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 are as follows:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Trade receivables turnover in days(1)	24	37	47	80

Note:

(1) Trade receivables turnover in days = (average trade receivables / total revenue) multiply by 365 days

The trade receivables turnover period for sales in days under its PRC market for the FYE 2006 to FYE 2009 is as follows:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Trade receivables turnover in days	27	37	56	87

The trade receivables turnover period for sales in days under its overseas market for the FYE 2006 to FYE 2009 is as follows:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Trade receivables turnover in days	19	35	25	59

Our trade receivables turnover days in the Financial Years under Review were generally in line with the prevailing credit terms granted to our customers. Our trade receivables turnover days increased from 24 days in FYE 2006 to 37 days in FYE 2007 and subsequently to 47 days in FYE 2008. This increase was mainly due to the increase in business activities and the longer credit terms extended to our long-term and established customers. Our trade receivable turnover was 80 days in FYE 2009 due to longer credit terms extended to our long-term and established customers, continued strong revenue performance and relatively higher trade receivable balances as at FYE 2009. For the second half of FYE 2009, there was an additional 6 new Authorised Regional Dealers being appointed, resulting in an increase of 80 retail outlets consisting of Specialty Stores and shops-in-shops. This has also contributed to the increase in the trade receivable balances and the trade receivable turnover days as longer credit terms were granted to these new Authorised Regional Dealers. As at 31 December 2009, our trade receivables amounted to RMB164.9 million, of which approximately 93.6% or RMB154.4 million have been collected by 5 April 2010.

Despite the increase in the Group's trade receivables turnover over the years, the Company does not expect the cash conversion cycle to increase substantially based on its credit terms of 60 days for Export Distributors and 90 days for the Authorised Regional Distributors. The Chief Financial Officer, Lim Yeow Eng and the Finance team would review the Group's outstanding trade debts to ensure that the Export Distributors and the Authorised Regional Distributors do not exceed the credit terms. The Company would contact the customer to follow on the payment status of the overdue debt and suspend delivery of goods until the normal credit terms had been reinstated.

Credit terms granted by our trade creditors may vary from supplier to supplier. In general, credit terms granted to us by our trade creditors range from 30 days to 90 days. Our average trade payables turnover for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 are as follows:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Trade payables turnover in days(1)	14	8	12	16

Note:

(1) Trade payables turnover in days = (average trade payables / cost of sales) multiply by 365 days

Our trade payable turnover days were within the credit terms granted to us and we have been prompt in making our payments. Our trade payable turnover days had decreased from 14 days in FYE 2006 to 8 days in FYE 2007. This decreasing trend was generally due to our policy of shortening our repayment periods in exchange for better prices and to build stronger long-term relationships with our selected suppliers. Our trade payables turnover days increased from 8 days in FYE 2007 to 12 days in FYE 2008 and subsequently to 16 days in FYE 2009 in tandem with the increase in trade receivables turnover day

7.4.11 Inventory management

Our inventory comprises raw materials, work-in-progress and finished goods products. We do not have high inventory levels nor do we need to make any allowances for obsolescence as we only make the necessary procurement of raw materials after we have received orders from our customers and our suppliers are located locally in Fujian Provinces.

During the Financial Years under Review, we did not experience any material sales returns by our customers due to product quality matters.

Our average inventory turnover for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 are as follows:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Inventory turnover in days(1)	18	11	13	13

Note:

(1) Inventory turnover in days = [(Average year-end inventory / cost of sales)] multiply by 365 days

Our inventory turnover in days had generally improved during FYE 2006 to FYE 2009 mainly due to improvement in raw material procurement, production management and logistics co-ordination on delivery of our finished goods products. Operationally, our suppliers generally improved on their service to us by better scheduling their inventories deliveries to meet our timing needs due to changes in our procurement strategies where we have shortened our repayment periods in exchange for better prices and to build stronger long-term relationships with our selected suppliers as earlier mentioned.

7.5 CAPITALISATION AND INDEBTEDNESS

The following information should be read in conjunction with the Reporting Accountants' Letter on Proforma Consolidated Financial Information and Accountants' Report set out in Section 7.3 and Section 8 of this Prospectus respectively.

The following table shows our Group's cash and cash equivalents, capitalisation and indebtedness:

(i) based on our proforma consolidated balance sheet as at 31 December 2009;

(ii) as adjusted for the net proceeds from the Public Issue and intended use of the proceeds from the Public Issue.

	Proforma Group FYE 2009		**After IPO and utilisation of proceeds FYE 2009**	
	RMB'000	**RM'000**	**RMB'000**	**RM'000**
Cash and cash equivalents	35,542	17,839	78,390	39,344
Indebtedness				
Current				
Bank borrowings (secured and guaranteed)	15,300	7,679	15,300	7,679
Convertible loan (unsecured and guaranteed)	27,632	13,869	-	-
Total indebtedness	42,932	21,548	15,300	7,679
Shareholders' equity	237,922	119,413	319,230	160,222
Total indebtedness and capitalisation	280,854	140,961	334,530	167,901

7.6 EFFECTS OF INFLATION

Our Directors are of the view that inflation does not have a material impact on our business, financial condition or results of operation of our Group. However, in the future, any increase in inflation rate may affect our operations and performance if we are not able to fully offset the higher costs of services through higher selling price of our products. Our failure or inability to do so may adversely affect our business, financial performance and results of operations.

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7.7 TREND INFORMATION

7.7.1 Business and financial prospect

For the Financial Years under Review up to the Latest Practicable Date, our directors have observed the following trends based on the sales and operations of our Group:

(i) increase in sales and production of our products as a result of an increase in demand for sports footwear both in the PRC and overseas markets including Russia and countries in the Eastern Europe as a result of our branding, sales and marketing efforts including the establishment of an extensive distribution network across PRC and overseas markets, and repeated orders from existing and new OEM/ODM customers of international sports brands. In FYE 2009, despite marginal increase in revenue derived from our Proprietary Brand products in both the PRC and overseas market due to the global economic slowdown, our sales and production have continued to increase due to dynamic sales volume to our OEM/ODM customers. We remained optimistic about the long-term growth prospects of our Proprietary products in view of the prospects and outlook of the industry as set out in Section 5.9 of this Prospectus;

(ii) the selling price of our Proprietary Brands and OEM/ODM products have generally increased in tandem with the general improvement in economic conditions as well as consumer demand for better quality products and an overall increase in raw material prices which tracked closely to the hike in oil prices. In FYE 2009, the selling price of both our Proprietary Brands and OEM/ODM products to the overseas markets have generally declined due to shift in demand for affordable low-end mass market footwear products amid the global economic slowdown in the overseas market;

(iii) the cost of raw materials which constituted up to 80% of the cost of production, has generally been on an upward trend due to consumer demand for better quality products and a general increase in raw material prices which followed closely to the movement in oil prices. We have secured raw material at competitive prices due to our established relationship with these raw material suppliers and the strategic location of our operations in Jinjiang City, Fujian Province, which is at close proximity to the large supplier base in Fujian Province. Our Directors believe that we are able to pass any increase in the price of raw materials to our customers;

(iv) labour costs have generally been on an increasing trend in the PRC. Our Directors believe that the labour cost will generally increase in tandem with the improvement in the PRC economy;

(v) subcontracting costs have generally been on an increasing trend and in tandem to the labour cost. Our Group has managed to negotiate competitive rates from our third party contract manufacturers by increasing the subcontracting volume and diversify the outsourced production to more approved third party contract manufacturers. Our Directors believe the subcontracting costs will generally increase in tandem with the improvement in the PRC economy; and

(vi) based on the above, our Directors are not aware of any circumstances which would result in significant fluctuations of our gross profit margins, and expect our gross profit margins to remain relatively stable in the near future.

Save as disclosed above and Sections 4 and 5.10 of this Prospectus, our Directors believe that there are no other significant known recent trends in production, sales and inventory, and in the costs and selling prices of our products, or other know trends, demands, commitments, events or uncertainties that are reasonably likely to have a material effect on our financial effect on our financial performance, position, operations, liquidity and capital resources, or that would cause the historical financial information disclosed in the Prospectus not to be indicative of our future financial performance and position.

7.7.2 Order book

In general, our customers do not place long-term orders with us. As at the Latest Practicable Date, we have received confirmed orders amounting to approximately RMB172.0 million. Most of these orders are scheduled for delivery within 60 days. These orders are however subject to cancellation, deferral or rescheduling by our customers. Accordingly, our order book as at any particular date may not be indicative of our revenue for any succeeding period.

7.8 DIVIDEND POLICY

Our Directors have considered the general principles that they currently intend to apply when recommending dividends for approval by our shareholders or when declaring any interim dividends. The actual dividend that our Directors may recommend or declare in respect of any particular financial year will be subject to the factors outlined below as well as any other factors deemed relevant by our Directors. We may, by ordinary resolution of the shareholders, declare dividends at a general meeting, but no dividend shall exceed the amount recommended by our Board of Directors.

In considering the level of dividend payments, if any, upon recommendation by our Directors, we intend to take into account various factors including:

(i) our expected results of operations;

(ii) required and expected interest expense and taxation, cash flows, our profits and return on equity and retained earnings;

(iii) our projected level of capital expenditure and other investment plans;

(iv) the prevailing interest rates and yields of the financial market;

(v) the level of our cash, marketable financial assets and level if indebtedness; and

(vi) restrictions on payment of dividends imposed on us by our financing arrangements (if any).

It will be the policy of our Directors in recommending dividends to allow shareholders to participate in the profits of our Group as well as leaving adequate reserves for the future growth of our Group.

Subject to the factors outlined above, our Directors intend to recommend and distribute dividends of between 10% to 20% of our net profit distributable to our shareholders from FYE 2010 onwards. Our Company will declare dividends, if any, in RM and will make our payment of the dividends in RM.

You should note that future dividends proposed and declared, may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

GrantThornton

(PREPARED FOR INCLUSION IN THIS PROSPECTUS)

Date: 7 April 2010

The Board of Directors
K-Star Sports Limited
8 Cross Street
#11-00 PWC Building
Singapore 048424

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Dear Sirs,

K-STAR SPORTS LIMITED AND ITS SUBSIDIARY COMPANY
ACCOUNTANTS' REPORT

1. INTRODUCTION

This report has been prepared by us, an approved company auditor, for inclusion in this Prospectus in connection with the listing and quotation of the entire enlarged issued and paid-up share capital of K-Star Sports Limited ("K-Star Sports" or "the Company") on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") which includes, amongst others, the following:

(i) **Public Issue**

Public Issue of 15,321,000 new ordinary shares ("Public Issue Shares"), representing 17.25% of the enlarged issued share capital of K-Star Sports, at an issue price of RM2.15 per share, payable in full on application, and will be allocated and allotted in the following manner:

(a) **Malaysian Public via balloting**

3,401,000 Public Issue Shares, representing 3.83% of the enlarged issued share capital of K-Star Sports, to be allocated via balloting, will be made available for application by the Malaysian Public; and

(b) **Selected investors via placement**

11,920,000 Public Issue Shares, representing 13.42% of the enlarged issued share capital of K-Star Sports, by way of private placement to selected investors.

(ii) **Listing and Quotation on the Main Market of Bursa Securities**

In conjunction with the Listing Scheme (as defined in Section 2.1.1), K-Star Sports seeks a listing and quotation of its entire enlarged issued share capital comprising 88,800,000 ordinary shares on the Main Market of Bursa Securities.

Chartered Accountants
Member of Grant Thornton International Ltd

2. GENERAL INFORMATION

2.1 Background

K-Star Sports was incorporated in Singapore under the Singapore Companies Act on 3 November 2008 as a private limited company under the name of K-Star Sports Pte. Ltd. On 14 September 2009, the Company was converted into a public limited company and assumed the present name on even date. On 16 September 2009, the Company was registered in Malaysia as a foreign company under the name of K-Star Sports Pte. Ltd. and subsequently changed its name to K-Star Sports Limited on 17 September 2009.

2.1.1 Listing Scheme

As an integral part of the listing and quotation of its entire enlarged issued share capital of K-Star Sports, K-Star Sports undertook the listing scheme that was approved by the Security Commission ("SC") on 20 January 2010 which involves the following:

(i) **Acquisition of Fujian Jinjiang Dixing Shoes Plastics Co., Ltd. ("Fujian Dixing")**

The Company acquired the entire issued and paid-up share capital of Fujian Dixing, amounting to RMB15,111,752 for an aggregate purchase consideration of RMB189,268,000, which was wholly satisfied by the issuance of an aggregate of 60,158,999 new ordinary shares in K-Star Sports, credited as fully paid ("Acquisition").

The Acquisition was completed on 9 September 2009.

(ii) **Conversion of Convertible Loans**

Conversion of convertible loans from the pre-initial public offering investors amounting to SGD1,500,000 and RM11,000,000, which is to be converted to an aggregate of 13,320,000 new ordinary shares in K-Star Sports ("Conversion of Convertible Loans").

The Conversion of the Convertible Loans was completed on 10 March 2010.

(iii) **Public Issue**

Public Issue of 15,321,000 new ordinary shares ("Public Issue Shares"), representing 17.25% of the enlarged issued share capital of K-Star Sports, at an issue price of RM2.15 per share, payable in full on application, and will be allocated and allotted in the following manner:

(a) **Malaysian Public via balloting**

3,401,000 Public Issue Shares, representing 3.83% of the enlarged issued share capital of K-Star Sports, to be allocated via balloting, will be made available for application by the Malaysian Public; and

(b) **Selected investors via placement**

11,920,000 Public Issue Shares, representing 13.42% of the enlarged issued share capital of K-Star Sports, by way of private placement to selected investors.

2. **GENERAL INFORMATION (CONT'D)**

2.1.1 **Listing Scheme (cont'd)**

(iv) **Utilisation of Proceeds from Public Issue**

K-Star Sports seeks a listing and quotation of its entire enlarged issued share capital comprising 88,800,000 ordinary shares on the Main Market of Bursa Securities ("the Listing").

The gross proceeds arising from the Public Issue amounting to RMB65,631,000 (RM32,940,000) are expected to be fully utilised for the core business of K-Star Sports Group in the following manner:

	RMB'000	RM'000
Expansion of production capacity	17,932	9,000
Expansion of sales and marketing network	9,962	5,000
Branding and advertising	5,977	3,000
Enhancement of product research and development capabilities	8,966	4,500
Estimated listing expenses *	11,955	6,000
General working capital	10,839	5,440
	65,631	32,940

The listing expenses are estimated at RMB11,955,000 (RM6,000,000) and will be set off against the share capital account and retained earnings account.

* Out of the total estimated listing expenses, RMB7,104,000 (RM3,565,000) has been paid by advances from the pre-initial public offering investors as at 31 December 2009. Subsequently, the advances are to be repaid to the pre-initial public offering investors.

2. GENERAL INFORMATION (CONT'D)

2.2 Share capital

The changes in the Company's issued and paid-up share capital since its date of incorporation were as follows:

Date of Allotment	Value SGD'000	Number of Ordinary Shares	Consideration	Cumulative Total SGD'000	Cumulative Total Number of Ordinary Shares
3 November 2008	@	1	Cash	@	1
9 September 2009	39,671	60,158,999	Acquisition of subsidiary	39,671	60,159,000
10 March 2010	6,105	13,320,000	Conversion of convertible loan	45,776	73,479,000

The above table is before the Public Issue.

@ Less than SGD1,000

2.3 Principal activities

The Company's principal activity is investment holding.

The subsidiary company is as follows:

Name of Company	Effective Ownership	Principal Activities	Date and Place of Incorporation
Fujian Jinjiang Dixing Shoes Plastics Co., Ltd.	100%	Manufacture of footwear products (excluding plastics slippers)	7 November 1992 The People's Republic of China ("PRC")

K-Star Sports and Fujian Dixing are collectively referred to as "K-Star Sports Group".

2.4 Share capital history of subsidiary company

FUJIAN DIXING

The present paid up registered capital of Fujian Dixing is HKD16,080,000.

The contributions to Fujian Dixing's paid up registered capital since its date of incorporation were as below:

Date of Allotment	Value HKD'000	Consideration	Cumulative Total HKD'000
24 February 1995	4,335	Cash, equipment, machines & motor vehicles	4,335
8 May 2006	3,500	Cash	7,835
15 September 2006	8,245	Cash	16,080

GrantThornton

3. **FINANCIAL STATEMENTS AND AUDITORS**

Foo Kon Tan Grant Thornton (Grant Thornton Singapore) performed a special audit in accordance with International Standards on Auditing on the K-Star Sports Group's consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flow, a summary of significant accounting policies and other explanatory notes ("audited Consolidated Financial Statements") and these reports were prepared in accordance with International Financial Reporting Standards for Financial Year Ended ("FYE") 31 December 2006, 2007, 2008 and 2009.

The Group is regarded as a continuing entity resulting from the Acquisition since the management of all the entities which took part in the Acquisition were controlled by the same directors and under common shareholder before and immediately after the Acquisition. Consequently, immediately after the Acquisition, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate shareholder that existed prior to the Acquisition. The Acquisition has been accounted for as a business combination under common control in a manner similar to pooling of interests. Accordingly, the audited Consolidated Financial Statements for the FYE 2006, 2007, 2008 and 2009 have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiary company which are under common control of the ultimate shareholder and directors that existed prior to the Acquisition during the relevant years or since their respective dates of incorporation.

The audited consolidated financial statements for the FYE 31 December 2006, 2007, 2008 and 2009 were reported without any audit qualifications.

The financial year end adopted by K-Star Sports Group is 31 December.

The auditors' reports on the audited consolidated financial statements for FYE 31 December 2006, 2007, 2008 and 2009 are disclosed in Appendix F of this Prospectus.

SJ Grant Thornton (Grant Thornton Malaysia) performed the independent audit procedures by reviewing working papers of Grant Thornton Singapore in accordance with International Standards on Auditing - AI 600 - Using the work of another auditor in order to obtain sufficient appropriate audit evidence, that the work of Grant Thornton Singapore is adequate.

Grant Thornton Malaysia has also performed additional independent audit procedures as follows:

a) On site interview of customers and suppliers of K-Star Sports Group on sampling basis;
b) Verify after year end collections and payments for trade receivables and trade payables respectively of K-Star Sports Group;
c) Obtain tax declaration letters from local tax authorities; and
d) Factory site visit and physical sighting of the property, plant and equipment on sampling basis.

4. **CONVERSION RATE**

In preparing this report, the Group has converted all figures stated in Renminbi ("RMB") into Ringgit Malaysia ("RM") based on the following exchange rates, except for the purchase consideration in relation to the Acquisition which the applied rate of exchange is RMB1:RM0.5120, based on the exchange rate as at 9 September 2009 which is the completion date for Acquisition and the Conversion of Convertible Loans which the applied rate of exchange is SGD1 :RM0.4186, based on the exchange rate as at 10 March 2010 which is the completion date for Conversion of Convertible Loans:-

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Statement of comprehensive income based on average rates for the relevant years				
RMB	0.4594	0.4518	0.4826	0.5157
Statement of financial position based on closing rates at the respective reporting dates				
RMB	0.4521	0.4563	0.5081	0.5019

The functional currency and presentation currency for audited Consolidated Financial Statements are both in RMB. RM is neither the functional currency nor presentation currency.

The translation from RMB into RM in the Accountants' Report is to comply with the requirements of Prospectus Guidelines – Paragraph 13.12 where all financial statements prepared in currency other than RM must be translated into RM.

5. **FINANCIAL RISK MANAGEMENT OBJECTIVES - POLICIES**

The Group's activities expose it to market risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The board of directors provides guidance for overall risk management as well as policies covering specific areas. Management analyses and formulates measures to manage the Group's exposure to financial risk in accordance with the objectives and underlying principles approved by the board of directors. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposures to market risk and financial risk are kept at a minimum level, the Group has not used any derivatives or other financial instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(i) **Market risk - Interest rate risk**

The Group is exposed to interest rate risk primarily from its interest-bearing borrowings. The Group ensures that it is not exposed to significant fluctuation in future cash flow arising from changes in market interest rates by maintaining its borrowings largely in fixed-rate instruments.

The Group has no significant interest-bearing assets except deposits with financial institution.

The Group monitors the interest rates and ensures favourable rates are obtained from the deposits with financial institution.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONT'D)

(ii) Market risk - Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has currency exposures arising from balances that are denominated in a currency other than the functional currency, primarily Singapore Dollar ("SGD), United States Dollar ("USD") and Malaysia Ringgit ("RM").

The Group has no significant currency exposure for the financial year ended 31 December 2006 and 2007.

The Group's currency exposure for the financial year ended 31 December 2008 arises from the convertible loan which is denominated in SGD and amounted to RMB 3,045,000.

The Group's currency exposure for the financial year ended 31 December 2009 arises from the convertible loans and bank balances which are denominated in SGD, USD and RM. The currency exposures of the net financial liabilities denominated in SGD and USD are RMB7,185,000 and RMB21,873,000 respectively; and the currency exposure of the net financial assets denominated in RM is RMB 20,483,000.

Sensitivity analysis for currency risk

If SGD, USD and RM change against the RMB by 10% (FYE 2008: 10%) with other variables being held constant, the effects arising from the net financial liability/ asset position will be as follows:

	As at 31 December			
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Group and Company				
SGD against RMB				
- Strengthened	-	-	305	841
- Weakened	-	-	(304)	(619)
USD against RMB				
- Strengthened	-	-	-	(2,042)
- Weakened	-	-	-	2,053
RM against RMB				
- Strengthened	-	-	-	2,209
- Weakened	-	-	-	(2,170)

5. **FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONT'D)**

(iii) **Credit risk**

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations. Credit risk of the Group arises primarily from the Group's trade receivables.

The Group's exposure to credit risks is restricted by credit limits that are approved by the general manager. The Group typically allows the existing customers' credit terms of up to 3 months. In deciding whether credit shall be extended, the Group will take into consideration factors such as the relationship with the customer, its payment history and creditworthiness. In relation to new customers, the sales and marketing department will prepare credit proposals for approval by the general manager.

The Group performs on-going credit evaluation of its customers' financial position. The concentration of credit risk from the Group's trade receivables is 60% (comprising of 5 customers), 47% (comprising 5 customers), 35% (comprising 5 customers) and 29% (comprising 5 customers) as at 31 December 2006, 2007, 2008 and 2009 respectively.

As the Group does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the audited consolidated statement of financial position.

The Group's major classes of financial assets are bank deposits, trade and other receivables.

There is no receivable that is past due and /or impaired. No impairment loss was recognised in the statement of comprehensive income as most of the receivables were subsequently received.

Bank deposits are mainly deposits with reputable banks. Trade receivables are mainly customers with good credit-standing.

(iv) **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's financial liabilities are expected to mature within 1 year from the reporting dates, except for convertible loans, which are expected to mature within 2 years from the reporting dates. The contractual undiscounted cash flows of the financial liabilities approximate their carrying amounts.

6. SIGNIFICANT ACCOUNTING POLICIES

6.1 Statement of compliance

The audited Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including related interpretations and have been consistently applied throughout the FYE 31 December 2006, 2007, 2008 and 2009.

6.2 Basis of preparation of audited Consolidated Financial Statements

The Group has early adopted IFRSs and interpretations which are effective for accounting periods after 1 January 2006 for the preparation of these audited Consolidated Financial Statements of the Group since 1 January 2006. IFRS 1, First-time Adoption of Financial Reporting Standards, has been applied in preparing these audited Consolidated Financial Statements. These audited Consolidated Financial Statements are the first set of financial statements prepared in accordance with IFRS by the Group.

The Consolidated Financial Statements have been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies set out below and have been applied consistently to all periods presented in these Consolidated Financial Statements and in preparing an opening IFRS balance sheet as at 1 January 2006 for the purpose of the first set of IFRS financial statements. The accounting policies have been applied consistently by the Group.

On 1 January 2009, the Group adopted the accounting standards that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective accounting standards. The following are the relevant accounting standards adopted by the Group:

- IAS 1 (Revised 2008) affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. This standard has been applied retrospectively. The adoption of the standard does not affect the financial position or profits of the Group but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however some items that were reported directly in equity are now reported in other comprehensive income.

- IAS 23 (Revised) (Borrowing Costs) requires the capitalisation of interest on borrowings made to acquire, construct or produce a qualifying asset. The amendments are to be applied for annual periods beginning on or after 1 January 2009.

- Amendments to IAS 27 Consolidated and Separate Financial Statements and Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" dealt with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting International Financial Reporting Standards (IFRSs) for the first time. The amendments to IAS 27 and IFRS 1 are effective for annual periods beginning on or after 1 January 2009. The adoption of the amendments did not resulted in a material impact on the Group's financial statements.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

On 1 January 2009, the Group adopted the accounting standards that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective accounting standards. The following are the relevant accounting standards adopted by the Group: (cont'd)

- The Group also adopted IFRS 8 Operating Segments, which replaces IAS 14 Segment Reporting. The standard was applied retrospectively. The adoption of this standard has not affected the identified operating segments for the Group. However, the accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In contrast, IAS 14 required the Group to identify two sets of segments (business and geographical) based on risks and rewards of the operating segments. The adoption of the accounting standards did not resulted in any material changes to the operating segments disclosed.

- The IASB published Amendments to IFRS 7 (Financial Instruments: Disclosures) Improving Disclosures about Financial Instruments. These amendments to IFRS 7 require enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurement by level of a fair value measurement hierarchy. These amendments are to be applied for annual periods beginning on or after 1 January 2009. The adoption of the amendment resulted in additional disclosures but did not have an impact on the accounting policies and measurement bases adopted by the Group.

- In May 2008, the IASB published amendments – mainly of a terminological or editorial nature – to a number of International Financial Reporting Standards as part of its "Annual Improvements" project. The amendments are to be applied for the first time for annual periods beginning on or after 1 January 2009. The adoption of these amendments did not resulted any material changes to the way the operating segments are disclosed.

At the date of preparation of the Consolidated Financial Statements, certain new or revised accounting standards were issued and effective for financial period beginning after 1 January 2010 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting these accounting standards that are relevant to the Group is set out below:

- IFRIC 17 (Distributions of Non-cash Assets to Owners) defines when an obligation to distribute a non-cash dividend is to be recognised and specifies that it must be measured at fair value and that the difference between the dividends paid and the carrying amount of the net assets distributed must be recognised in profit or loss at the distribution date. The Group will apply IFRIC 17 from 1 January 2010 but it is not expected to result in any material impact to the financial statements.

- IFRS 3 (revised 2009) requires non-controlling interest to be measured either at fair value (i.e. including goodwill) or at the proportionate share of the identifiable net assets of the entity. In the case of a step acquisition, the acquirer must remeasure its previously held interest at fair value on the date on which it gains control of the acquiree and recognise the resulting gain or loss in income. The difference between the (remeasured) carrying amount of the interest in the subsidiary and the acquirer's remeasured proportionate share of the net assets of the subsidiary must be recognised as goodwill. Liabilities recognised as of the acquisition date for the purpose of future purchase price adjustments in light of future events can no longer be offset against goodwill in subsequent periods. Ancillary acquisition costs must be recognised in income. The Group will apply IFRS 3 (revised 2009) prospectively to all business combinations from 1 January 2010.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

At the date of preparation of the Consolidated Financial Statements, certain new or revised accounting standards were issued and effective for financial period beginning after 1 January 2010 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting these accounting standards that are relevant to the Group is set out below: (cont'd)

- IAS 27 (revised 2009) requires reduction in the equity interest held in a subsidiary that does not result in a loss of control by the parent to be accounted for as an equity transaction. If a reduction in the equity interest held in a subsidiary involves a loss of control, the assets and liabilities of the subsidiary must be derecognised in their entirety. The remaining interest in the company is to be recognised at fair value. The difference between the remaining carrying amounts and the fair values must be recognised in income. Non-controlling interests that become negative due to incurred losses must be recognised at their net negative amounts. The Group will apply IAS 27 (revised 2009) prospectively to transactions with minority interests from 1 January 2010.

The directors are in the process of assessing the impact of other IFRS upon initial application. So far, the directors have preliminary concluded that the initial application of these IFRS are unlikely to have a significant impact on the Group's results and financial position.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Key sources of estimation uncertainty

Income taxes

The Group has exposure to income tax arising from their operations in the PRC. Significant judgement is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax expense and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable as at 31 December 2006, 2007, 2008 and 2009 amounted to RMB1,813,000, RMB4,379,000, RMB4,687,000 and RMB8,027,000 respectively.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

Key sources of estimation uncertainty (cont'd)

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management determines the estimated useful lives of property, plant and equipment to be within 5 to 20 years. The carrying amounts of the Group's property, plant and equipment as at 31 December 2006, 2007, 2008 and 2009 were approximately RMB30,896,000, RMB44,899,000 RMB53,494,000, and RMB62,570,000 respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised. A 5% difference in the expected useful lives of the property, plant and equipment would not result in a significant change to the Group's net profit for the respective financial years.

Critical judgement made in applying accounting policies

In the process of applying the Group's accounting policies as described below, management is of the opinion that there are no instances of application of judgements which are expected to have a significant effect on the amounts recognised in the audited Consolidated Financial Statements.

Allowance for bad and doubtful debts

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgments and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed.

The accounting polices used by the Group have been applied consistently to all periods presented in these financial statements.

Consolidation

The Consolidated Financial Statements of the Group include the financial statements of the Company and its subsidiary made up to the end of the financial year.

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 profit or loss from the effective date in which control is transferred to the Group or in which control ceases, respectively.

Acquisitions of subsidiaries are 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 minority interest.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Common control business combination

A business combination involving entities under common control is a business combination in which all the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The Acquisition resulted in a business combination involving common control entities, and accordingly the accounting treatment is outside the scope of IFRS 3. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the Consolidated Financial Statements.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs are included in the Consolidated Financial Statements of the Group as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the Group. Therefore, the Group recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts as if such Consolidated Financial Statements had been prepared by the controlling party, including adjustments required for conforming to the Group's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. Any difference between the paid-up capital of the Company and the amount of share capital acquired is adjusted against equity. The effect of all transactions and balances between combining entities, whether occurring before or after the combination, are eliminated in preparing the Consolidated Financial Statements of the Group.

Subsidiary

Subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether there is control.

Shares in a subsidiary are stated at cost less allowance for impairment losses, if any, on an individual subsidiary basis. The purchase method of accounting is used to account for the acquisition of subsidiary. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of minority interest.

For acquisition of subsidiary under common control, the identifiable assets and liabilities were accounted for at their carrying values, in a manner similar to the pooling-of-interest method of consolidation.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of these assets over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 -10 years
Renovation	5 years

No depreciation is provided on construction-in-progress.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date as a change in estimates.

Land use rights

Land use rights are recognised at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the statement of comprehensive income, using the straight-line method, so as to write off the cost of land use rights, over the lease term of the land of 50 years.

The amortisation period and amortisation methods for land use rights are reviewed and adjusted as appropriate at each statement of financial position date.

Land use rights represent up-front payments to acquire long-term interests in the usage of land.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets subject to impairment are reviewed at each financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that include other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to equity.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each financial position date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

Other than loans and receivables, the Group does not have other categories of financial assets.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the financial position date. These are classified as non-current assets.

Loans and receivables include trade and other receivables. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or writeback is recognised in the income statement.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on first-in, first-out basis, and includes all costs in brining the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and dividend payable.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance cost" in the income statement. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within twelve months after the balance sheet are included in current borrowings in the balance sheet even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the financial position date. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the financial position date are included in non-current borrowings in the balance sheet.

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

When convertible loans are issued at fair value, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible loan; this amount is recorded as a non-current liability on an amortised cost basis until extinguished on conversion or maturity of the loan. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity. The carrying amount of the conversion option is not changed in subsequent periods.

When a conversion option is exercised, the carrying amount of the conversion option will be taken to share capital. When the conversion option is allowed to lapse, the carrying amount of the conversion option will be taken to retained profits.

Dividend distributions to shareholders are included in current financial liabilities when the dividends are payable.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Provisions

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Present obligations arising from onerous contracts are recognised as provisions.

The provision is based on the best estimate of the direct expenditures to be incurred which are both necessarily entailed by the restructuring and not associated with the on-going activities of the Group.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of the time is recognised as finance costs.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income is recognised on a time-apportioned basis using the effective interest method.

Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction of buildings. This includes those costs on borrowings acquired specifically for the construction of buildings, as well as those in relations to general borrowings used to finance the construction of buildings.

Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction expenditures that are financed by general borrowings.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

Employee benefits – Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiary of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the statement of comprehensive income as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and (certain managers) are considered as key management personnel.

Income tax

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the financial position date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

i. at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the financial position; and

ii. based on the tax consequence that will follow from the manner in which the Group expects, at the date of the financial position, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Basis of preparation of audited Consolidated Financial Statements (cont'd)

Value-added tax ("VAT")

The Group's sale of goods in the PRC are subject to VAT at the applicable tax rate of 17% for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the consolidated statements of financial position.

Revenue, expenses and assets are recognised net of the amount of VAT except:

(i) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) receivables and payables that are stated with the amount of VAT included.

Functional currencies

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 (the "functional currency"). The Consolidated Financial Statements of the Group are presented in Renminbi.

<u>Transactions and balances</u>
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 the income statement, 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 the 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.

<u>Group entities</u>
The results and financial positions of all the entities (none of which has the currency of a hyperinflationary economy) within the Group that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(1) Assets and liabilities are translated at the closing exchange rates at the reporting dates;

(2) 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 using the exchange rates at the dates of the transactions); and

(3) All resulting currency translation differences are recognised in the currency translation reserve in equity.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Consolidated Financial Statements (cont'd)**

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Research and development costs

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Operating leases

Rentals on operating leases are charged to income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the income statement when incurred.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management who is responsible for allocating revenue and assessing performance of the operating segments.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital amount.

Retained earnings include all current and prior period results as determined in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank deposits pledged.

7. HISTORICAL FINANCIAL INFORMATION

(a) Summarised statement of comprehensive income

The following tables set out the summary of the financial results based on the audited Consolidated Financial Statements of K-Star Sports Group for the four (4) FYE 31 December 2006 to 2009.

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	156,729	72,001	300,519	135,774	501,069	241,816	571,063	294,497
Gross profit	33,827	15,540	72,979	32,972	126,583	61,089	139,211	71,791
Profit before depreciation, amortisation, interest expenses and taxation	26,815	12,319	61,317	27,703	106,025	51,168	122,510	63,178
Depreciation	(1,930)	(887)	(2,249)	(1,016)	(2,497)	(1,205)	(2,918)	(1,505)
Amortisation	(194)	(89)	(197)	(89)	(197)	(95)	(197)	(102)
Interest expenses	(454)	(209)	(969)	(438)	(843)	(407)	(565)	(291)
Profit before taxation but after depreciation, amortisation and interest expenses	24,237	11,134	57,902	26,160	102,488	49,461	118,830	61,280
Taxation	(5,724)	(2,629)	(15,370)	(6,944)	(25,249)	(12,185)	(30,522)	(15,740)
Profit after taxation	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Gross profit margin (%)	21.58	21.58	24.28	24.28	25.26	25.26	24.38	24.38
Pre-tax profit margin (%)	15.46	15.46	19.27	19.27	20.45	20.45	20.81	20.81
Effective tax rate (%)	23.62	23.62	26.54	26.54	24.64	24.64	25.69	25.69
Gross Earnings Per Share ("EPS")* (RMB/RM)	0.33	0.15	0.79	0.36	1.39	0.67	1.62	0.83
Net EPS* (RMB/RM)	0.25	0.12	0.58	0.26	1.05	0.51	1.20	0.62

- There were no exceptional or extraordinary items in all the financial years under review
- There were no accounting policies which were peculiar to K-Star Sports Group as a result of the nature of business or industry it was involved in that would affect the determination of K-Star Sports Group's income or financial position

* Based on enlarged share capital of 73,479,000 ordinary shares (number of ordinary shares in issue after the Conversion of Convertible Loans but before the Public Issue)

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7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised statement of financial position

The following table sets out the summary of statement of financial position based on the audited Consolidated Financial Statements of K-Star Sports Group for the FYE 31 December 2006 to 2009.

Years ended	Note	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
		RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Share capital		15,112	6,973	15,112	6,973	15,112	6,973	189,268	96,905
Merger reserve				-	-	-	-	(174,156)	(89,932)
Equity component - convertible loan	(i)	-	-	-	-	154	78	1,467	736
Statutory reserve		3,839	1,781	7,556	3,460	7,556	3,460	7,556	3,460
Exchange fluctuation reserves		-	(393)	-	(195)	-	4,809	-	2,672
Retained earnings		21,765	10,046	23,966	11,041	125,479	60,032	213,787	105,572
Shareholders' equity		40,716	18,407	46,634	21,279	148,301	75,352	237,922	119,413
Non-current assets									
Property, plant and equipment	(ii)	30,896	13,968	44,899	20,488	53,494	27,180	62,570	31,404
Land use rights	(iii)	9,639	4,358	9,442	4,308	9,245	4,697	9,048	4,541
		40,535	18,326	54,341	24,796	62,739	31,877	71,618	35,945
Current assets									
Inventories	(iv)	5,357	2,422	7,785	3,552	19,407	9,861	11,006	5,524
Trade receivables	(v)	16,300	7,369	44,052	20,101	85,196	43,288	164,858	82,742
Other receivables	(vi)	3,666	1,657	3,947	1,801	17,112	8,695	32,278	16,200
Cash and cash equivalents	(vii)	13,338	6,030	5,013	2,287	13,661	6,941	35,542	17,839
		38,661	17,478	60,797	27,741	135,376	68,785	243,684	122,305
Current liabilities									
Trade payables	(viii)	4,293	1,941	5,228	2,386	19,515	9,916	18,076	9,072
Other payables	(ix)	26,474	11,969	16,260	7,419	14,721	7,480	8,345	4,188
Borrowings	(x)	5,900	2,667	10,600	4,837	10,891	5,534	42,932	21,548
Dividend payable		-	-	32,037	14,618	-	-	-	-
Income tax payable		1,813	820	4,379	1,998	4,687	2,380	8,027	4,029
		38,480	17,397	68,504	31,258	49,814	25,310	77,380	38,837
Net current (liabilities)/assets		181	81	(7,707)	(3,517)	85,562	43,475	166,304	83,468
Net tangible assets ("NTA")		40,716	18,407	46,634	21,279	148,301	75,352	237,922	119,413
NTA per share* (RMB/RM)		0.55	0.25	0.63	0.29	2.02	1.03	3.24	1.63

* Based on enlarged share capital of 73,479,000 ordinary shares (number of ordinary shares in issue after the Conversion of Convertible Loans but before the Public Issue)

7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised statement of financial position (cont'd)

(i) Details disclosure on convertible loan are as below:

The subsidiary entered into an investment agreement (the "Agreement I") with Fortune United Investment Limited and Mr Ng Der Sian (collectively, the "Investors I") on 26 October 2008.

Pursuant to the Agreement I, the Investors I granted an unsecured loan of SGD1,500,000 (equivalent of approximately RMB 7,039,000) to the subsidiary. Agreement I was subsequently assumed by the Company in accordance with the terms of the investment agreement dated 26 October 2008 and supplementary investment agreement dated 30 August 2009. In consideration of the loan from the Investors I, the Company will issue such number of shares to the Investors I based on the principal amount of the loan upon the successful listing of the Company before 30 June 2009 subject to the terms and conditions of the Agreement I.

In the event that the Company is not successfully listed on the Singapore Exchange before 30 June 2009, the Company shall repay the Investors I the principal amount and interests calculated based on an annual rate of 5% from the date of disbursement.

In the event that the Company elects to abort the listing exercise or if the proposed listing exercise fails due to reasons not attributable to the Company, the Investors I may either (i) convert the loan into equity of the Company of a value equivalent to the principal amount or (ii) require the Company to repay the principal amount plus interest of 5% per annum and a compensation calculated based on 50% of the principal amount.

Pursuant to the supplementary investment agreement between the Company and the Investors I dated 30 August 2009, the period for the successful listing of the Company is subsequently amended from 30 June 2009 to 30 June 2010 and the proposed listing exercise to be carried out in the Singapore Exchange is subsequently amended to the Main Market of Bursa Malaysia Securities Berhad.

The Company entered into separate convertible loan agreement (the "Agreement II") with Skylitech Resources Sdn Bhd, Golden Eagle Resources Sdn Bhd (now known as A1 Capital Sdn Bhd) and Mr. Ng Chin Nam on 18 September 2009.

Pursuant to the Agreement II, Skylitech Resources Sdn Bhd, Golden Eagle Resources Sdn Bhd (now known as A1 Capital Sdn Bhd) and Mr. Ng Chin Nam (collectively, the "Investors II") granted an unsecured loan of RM4,950,000, RM4,950,000 and RM1,100,000 respectively, amounting to a total of RM11,000,000 (equivalent of approximately RMB21,739,000) to the Company. In consideration of the loan from the Investors II, the Company will allot and issue such number of shares to the Investors II based on the principal amount of the loan upon the successful listing of the Company before 30 June 2010 subject to the terms and conditions of the Agreement II.

In the event that the Company is not successfully listed on the Singapore Exchange before 30 June 2010, the Investors II is entitled to require the Company to repay the principal amount.

In the event that the Company elects to abort the listing exercise, the Investors II may either (i) continued to hold the shares allotted and issued to them or (ii) require the Company to repay the principal amount.

In the event that the proposed listing exercise fails due to reasons not attributable to the Company, the Company should repay the principal amount to the Investors II.

7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised statement of financial position (cont'd)

(i) Details disclosure on convertible loan are as below (cont'd):

The fair value of the liability component is calculated using a market interest rate of 5.31% for an equivalent non-convertible loan at the date of issue. The residual amount representing the value of the equity component of the convertible loan is included in equity. As at 31 December 2009, the Company has undrawn loan amount of Nil (2008: RMB 3,994,000).

On 10 March 2010, Investor I and Investor II executed the conversion rights and 13,320,000 ordinary shares were allotted and issued to Fortune United Investment Limited, Mr. Ng Der Sian, Skylitech Resources Sdn Bhd, Golden Eagle Resources Sdn Bhd (now known as A1 Capital Sdn Bhd) and Mr. Ng Chin Nam comprising 3,552,000, 888,000, 4,400,000, 4,400,000 and 80,000 ordinary shares respectively.

(ii) Details disclosure on property, plant and equipment are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Net carrying amount								
Buildings	22,397	10,126	27,176	12,401	25,862	13,140	49,557	24,873
Plant and machinery	7,264	3,284	6,503	2,967	5,998	3,048	5,249	2,634
Furniture, fixtures & office equipment	87	39	53	24	298	151	376	189
Motor vehicles	1,148	519	1,167	533	1,010	513	2,895	1,453
Renovation	-	-	-	-	493	250	653	328
Construction-in-progress	-	-	10,000	4,563	19,833	10,078	3,840	1,927
Total	30,896	13,968	44,899	20,488	53,494	27,180	62,570	31,404
Building *	2,972	1,344	2,778	1,267	2,583	1,312	2,389	1,199
Motor vehicles #	1,058	478	1,128	515	970	493	2,663	1,337

All property, plant and equipment held by the Group are located in the PRC.

* Bank borrowings are secured on a building of the Group at each statement of financial position date

\# Motor vehicles were held in trust by employees of the Company at each statement of financial position date

(iii) Details disclosure on land use rights are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Net carrying amount	9,639	4,358	9,442	4,308	9,245	4,697	9,048	4,541
Net carrying amount *	-	-	-	-	3,192	1,622	3,124	1,568

The land use rights of the Group refer to land located in the PRC.

* Land use rights which are pledged to a bank as securities for a banking facility granted to the Group

(iv) Details disclosure on inventories are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Raw materials	52	24	207	94	1,947	989	291	146
Work-in-progress	3,511	1,587	7,578	3,458	3,465	1,761	2,302	1,155
Finished goods	1,794	811	-	-	13,995	7,111	8,413	4,223
	5,357	2,422	7,785	3,552	19,407	9,861	11,006	5,524

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7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised statement of financial position (cont'd)

(v) Details disclosure on trade receivables are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Trade receivables	16,300	7,369	44,052	20,101	85,196	43,288	164,858	82,742

Aging analysis of trade receivables as at 31 December 2009:

	Within credit period			Exceeding credit period	Total
No. of days	0-30 days	31-60 days	61-90 days	More than 90 days	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (RMB)	55,024	55,363	54,399	72	164,858
Trade receivables (RM)	27,616	27,787	27,303	36	82,742
% of trade receivables	33.38	33.59	33.00	0.03	100.00

Trade receivables are non-interest bearing, have credit terms ranging from 60 to 90 days and are all denominated in RMB.

(vi) Details disclosure on other receivables are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Other receivables	641	290	54	25	85	43	7,254	3,641
Advances to suppliers	-	-	-	-	3,968	2,016	-	-
Amount due from a shareholder	-	-	-	-	2,120	1,078	-	-
Prepayments of listing expenses	-	-	-	-	-	-	7,104	3,565
Prepayments (others)	3,025	1,367	3,893	1,776	10,939	5,558	17,920	8,994
	3,666	1,657	3,947	1,801	17,112	8,695	32,278	16,200

Advances to suppliers are downpayment for purchase of goods from suppliers. Advances to suppliers are unsecured and non-interest bearing.

Shareholder refers to Wing Shun Trading Company. Amount due from a shareholder is unsecured and interest free. The amount was repaid on 15 September 2009.

Prepayments (others) mainly consist of prepaid operating lease expenses, advertisement expenses, other miscellaneous expenses. In addition, RMB7,200,000 is deposit paid for acquiring new land in 2009.

The carrying amounts of other receivables are all denominated in RMB.

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7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised statement of financial position (cont'd)

(vii) Details disclosure on cash and cash equivalents are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cash in hand	622	281	373	170	434	221	364	183
Cash at bank	4,106	1,856	2,250	1,027	10,007	5,085	34,278	17,204
Fixed deposit - pledged	8,610	3,893	2,390	1,090	3,220	1,635	900	452
	13,338	6,030	5,013	2,287	13,661	6,941	35,542	17,839

The cash at bank bears effective interest rates of 0.72%, 0.72%, 0.81% and 0.36% per annum during the FYE 31 December 2006, 2007, 2008 and 2009 respectively.

Fixed deposits with a bank have an average maturity of six months. Fixed deposit is pledged with a bank to secure partially the bills payable issued. It bears interest rates of 2.25%, 3.25%, 3.05% and 0.36% per annum for FYE 31 December 2006, 2007, 2008 and 2009 respectively.

Included in cash and cash equivalents are currency denominated in Renminbi amounting to approximately RMB13,388,000, RMB5,013,000, RMB13,661,000 and RMB15,017,000 at the respective reporting dates, which are not freely remissible for use by the Group because of currency exchange restrictions.

Cash and cash equivalents are denominated in the following currencies:

Years ended	As at 31 December							
	2006		2007		2008		2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Malaysia Ringgit	-	-	-	-	-	-	42	21
United State Dollar	-	-	-	-	-	-	20,483	10,281
Renmimbi	13,388	6,030	5,013	2,287	13,661	6,941	15,017	7,537
	13,388	6,030	5,013	2,287	13,661	6,941	35,542	17,839

(viii) Details disclosure on trade payables are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Trade payables	4,293	1,941	5,228	2,386	19,515	9,916	18,076	9,072

Aging analysis of trade payables as at 31 December 2009:

	Within credit period			Exceeding credit period	Total
No. of days	0-30 days	31-60 days	61-90 days	More than 90 days	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (RMB)	15,613	2,187	261	15	18,076
Trade payables (RM)	7,836	1,098	131	7	9,072
% of trade payables	86.37	12.10	1.45	0.08	100.00

Trade payables generally have credit terms of 30 to 90 days and are denominated in RMB.

7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised statement of financial position (cont'd)

(ix) Details disclosure on other payables are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Other payables	-	-	275	125	363	184	2,503	1,256
Amount due to a director	7,409	3,350	7,409	3,381	-	-	-	-
Accrued liabilities	1,955	884	2,276	1,039	6,408	3,256	2,842	1,426
Bills payable	17,110	7,735	6,300	2,874	7,950	4,040	3,000	1,506
	26,474	11,969	16,260	7,419	14,721	7,480	8,345	4,188

Bills payable are bills of exchange. Bills payables are secured by the Group's bank deposits, interest free and matured within 6 months from the date of each statement of financial position. Bills payable were subsequently repaid after each statement of financial position date.

Other payables mainly comprise of VAT tax payable.

Accrued liabilities mainly comprise of accrued salaries, stamp duties payable and other miscellaneous expenses.

The carrying amount of other payables are denominated in RMB.

(x) Details disclosure on borrowings are as below:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Current:-								
Bank borrowings	5,900	2,667	10,600	4,837	8,000	4,065	15,300	7,679
Convertible loan [Note 7(b)(i)]	-	-	-	-	2,891	1,469	27,632	13,869
	5,900	2,667	10,600	4,837	10,891	5,534	42,932	21,548

Bank borrowings are secured by a first mortgage over the land use right and building of the Group and are jointly guaranteed by certain key management personnel of the Company and a third party corporation.

The bank borrowings are repayable within one year and bear effective interest rates of 6.73%, 7.04%, 8.13% and 6.29% per annum at the respective statement of financial position dates.

Bank borrowings are denominated in RMB.

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7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(c) Summarised cash flow statements

The following table set out the summary of the cash flows based on the audited Consolidated Financial Statements of K-Star Sports Group for the FYE 31 December 2006 to 2009:

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cash flows from operating activities								
Profit before taxation	24,237	11,134	57,902	26,160	102,488	49,461	118,830	61,280
Adjustments for:								
Depreciation of property, plant and equipment	1,930	887	2,249	1,016	2,497	1,205	2,918	1,505
Amortisation of land use rights	194	89	197	89	197	95	197	102
Gain on disposal of property, plant and equipment	-	-	-	-	-	-	(36)	(18)
Property, plant & equipment written off	-	-	-	-	33	17	-	-
Interest expenses	454	209	969	438	843	407	565	291
Interest income	(41)	(19)	(230)	(104)	(57)	(28)	(73)	(38)
Operating profit before working capital changes	26,774	12,300	61,087	27,599	106,001	51,157	122,401	63,122
Decrease/(Increase) in inventories	1,251	566	(2,428)	(1,111)	(11,622)	(5,905)	8,401	4,218
Increase in trade and other receivables	(13,031)	(5,891)	(28,033)	(12,793)	(54,309)	(27,594)	(87,628)	(43,881)
(Decrease)/Increase in trade and other payables	(8,065)	(3,646)	(9,279)	(4,236)	12,748	6,477	(7,815)	(3,922)
Cash generated from operations	6,929	3,329	21,347	9,459	52,818	24,135	35,359	19,537
Income tax paid	(4,605)	(2,115)	(12,983)	(5,866)	(24,941)	(12,037)	(27,182)	(13,990)
Income tax refund	187	86	179	81	-	-	-	-
Interest paid	(454)	(209)	(969)	(438)	(843)	(407)	(565)	(291)
Interest received	41	19	230	104	57	28	73	38
Net cash from operating activities	2,098	1,110	7,804	3,340	27,091	11,719	7,685	5,294
Cash flows from investing activities								
Purchase of property, plant and equipment	(2,646)	(1,216)	(16,252)	(7,343)	(11,125)	(5,369)	(12,038)	(6,208)
Downpayment for purchase of land	(9,384)	(4,311)	-	-	-	-	(7,200)	(3,713)
Proceed on disposal of property, plant and equipment	-	-	-	-	-	-	80	41
Net cash used in investing activities	(12,030)	(5,527)	(16,252)	(7,343)	(11,125)	(5,369)	(19,158)	(9,880)
Cash flows from financing activities								
Dividends paid	9,800	4,502	(4,577)	(2,068)	(7,763)	(3,746)	-	-
Proceed from bank borrowings	(3,900)	(1,791)	10,600	4,789	8,000	3,861	19,300	10,003
Repayment of bank borrowings	-	-	(5,900)	(2,666)	(10,600)	(5,116)	(12,000)	(6,188)
Proceed from convertible loan	-	-	-	-	3,045	1,470	26,054	13,436
Proceed from capital contribution	11,112	5,099	-	-	-	-	-	-
Decrease/(Increase) of fixed deposits pledged	(2,910)	(1,337)	6,220	2,843	(830)	(401)	2,320	1,196
Net cash from/(used in) financing activities	14,102	6,473	6,343	2,898	(8,148)	(3,932)	35,674	18,447
Effect of foreign exchange translation	-	(171)	-	144	-	1,555	-	(1,715)
Net increase/(decrease) in cash and cash equivalents	4,170	1,885	(2,105)	(961)	7,818	3,973	24,201	12,146
Cash and cash equivalents at beginning of the financial year:-								
As previously reported	558	261	4,728	2,138	2,623	1,197	10,441	5,306
Effect of exchange rate changes	-	(8)	-	20	-	136	-	(65)
As restated	558	253	4,728	2,158	2,623	1,333	10,441	5,241
Cash and cash equivalents at end of the financial year	4,728	2,138	2,623	1,197	10,441	5,306	34,642	17,387

7. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(d) Summarised statements of changes in equity

The following table sets out the summary of changes in equity based on the audited Consolisdated Financial Statements of K-Star Sports Group for the FYE 31 December 2006 to 2009:

Years ended	Share capital		Merger reverse		Equity component - convertible loan		Statutory reserve		Exchange fluctuation reserve		Retained earnings		Total equity	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Balance at 1 January 2006	4,000	1,874	-	-	-	-	1,988	931	-	-	5,103	2,391	11,091	5,196
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	18,513	8,505	18,513	8,505
Capital contribution	11,112	5,099	-	-	-	-	-	-	-	-	-	-	11,112	5,099
Currency translation differences	-	-	-	-	-	-	-	-	-	(393)	-	-	-	(393)
Transfer to statutory reserve	-	-	-	-	-	-	1,851	850	-	-	(1,851)	(850)	-	-
Balance at 31 December 2006	15,112	6,973	-	-	-	-	3,839	1,781	-	(393)	21,765	10,046	40,716	18,407
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	42,532	19,216	42,532	19,216
Transfer to statutory reserve	-	-	-	-	-	-	3,717	1,679	-	-	(3,717)	(1,679)	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	198	-	-	-	198
Dividends	-	-	-	-	-	-	-	-	-	-	(36,614)	(16,542)	(36,614)	(16,542)
Balance at 31 December 2007	15,112	6,973	-	-	-	-	7,556	3,460	-	(195)	23,966	11,041	46,634	21,279
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	77,239	37,276	77,239	37,276
Equity component of convertible loan	-	-	-	-	154	78	-	-	-	-	-	-	154	78
Currency translation differences	-	-	-	-	-	-	-	-	-	5,004	-	-	-	5,004
Dividend waived	-	-	-	-	-	-	-	-	-	-	86,377	41,686	86,377	41,686
Dividend declared	-	-	-	-	-	-	-	-	-	-	(62,103)	(29,971)	(62,103)	(29,971)
Balance at 31 December 2008	15,112	6,973	-	-	154	78	7,556	3,460	-	4,809	125,479	60,032	148,301	75,352
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	88,308	45,540	88,308	45,540
Currency translation differences	-	-	-	-	-	-	-	-	-	(2,137)	-	-	-	(2,137)
Share capital contribution	189,268	96,905	-	-	-	-	-	-	-	-	-	-	189,268	96,905
Equity component of convertible loan	-	-	-	-	1,313	658	-	-	-	-	-	-	1,313	658
Adjustment arising from Restructuring Excercise	(15,112)	(6,973)	(174,156)	(89,932)	-	-	-	-	-	-	-	-	(189,268)	(96,905)
Balance at 31 December 2009	189,268	96,905	(174,156)	(89,932)	1,467	736	7,556	3,460	-	2,672	213,787	105,572	237,922	119,413

7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(e) Dividend records

The following table set out the summary of dividend records prepared based on the audited Consolidated Financial Statements of K-Star Sports for the FYE 31 December 2006 to 2009.

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Dividend paid	-	-	4,577	2,068	7,763	3,746	-	-

(f) Significant related party transactions

In addition to the balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties at agreed terms:-

Years ended	31/12/2006		31/12/2007		31/12/2008		31/12/2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Advances from a director to Fujian Dixing	11,745	5,396	5,143	2,323	112	54	26	13
Repayment of advances from a director by Fujian Dixing	4,981	2,288	4,939	2,231	7,750	3,740	-	-
Advances from a shareholder to Fujian Dixing	3,830	1,760	1,500	678	9,770	4,715	-	-
Repayment of advances from a shareholder by Fujian Dixing	3,830	1,760	1,500	678	9,770	4,715	-	-
Advances to a shareholder by Fujian Dixing	-	-	-	-	2,120	1,023	-	-
Repayment of advances from a shareholder to Fujian Dixing	-	-	-	-	-	-	2,120	1,093

(g) Segment information

The Company determined the segment information based on internal management reports reviewed by the Management that are used to make strategic decisions. These reports used by Management presents the business as a single operation engaged in the manufacture and sale of footwear products (excluding plastic slippers) and in a single geographical area, which is the PRC. Other operation of the Group comprises investment holding which is not included in the reports provided to the Management.

Performance is measured based on profit before income tax, as included in the internal management reports that are reviewed by the Management. The amounts provided to the Management with respect to the total assets and liabilities are measured in a manner consistent with that of the audited consolidated financial statements.

8. **SIGNIFICANT EVENTS DURING THE STATEMENT OF FINANCIAL POSITION DATE**

The Company acquired the entire issued and paid-up share capital of Fujian Dixing amounted to RMB15,111,752 for an aggregate purchase consideration of RMB189,268,000, which was wholly satisfied by the issuance of an aggregate of 60,158,999 new ordinary shares in K-Star Sports, credited as fully paid ("Acquisition").

The Acquisition was completed on 9 September 2009.

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9. OPERATING LEASE COMMITMENTS

The Group leases office premises and billboard space from non-related parties under operating lease agreement. The future minimum lease payables under payables under operating lease contracted for at the date of the statement of financial position but not recognised as liabilities are as follows:-

	RMB'000	RM'000
Not later than one year	822	413
Later than one year and not later than five years	1,351	678
	2,173	1,091

10. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

No audited Consolidated Financial Statements have been prepared in respect of any period subsequent to 31 December 2009.

Yours faithfully,

SJ GRANT THORNTON
Firm Number: AF 0737
Chartered Accountants

DATO' N.K. JASANI
Approval Number: 708/03/12(J/PH)
Partner of the Firm

9. OTHER INFORMATION

9.1 INFORMATION ON LAND AND BUILDINGS

Details of the land and buildings owned by our Group as at the Latest Practicable Date are as follows:

Name of Grantee/ Location	Description	Tenure	Land area and/or gross floor area (sq m)	Restriction in interest/ Encumbrances	Audited net book value as at 31 December 2009 (RMB'000)
Fujian Dixing No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC, Postal Code 362211 (福建省晋江市陈埭镇江头前进北路125-127号) ("Factory A")	3 buildings comprising a 6 storey staff dormitory cum office building, a 7 storey staff dormitory building and a 9 storey administrative cum management dormitory building(3)	50 years, from 20 October 2006 to 20 October 2056	2,675 (Land area) 10,383.67 (Gross floor area)	Restriction : Nil Encumbrances: The buildings with a total build-up area of 10,383.67 sq m was mortgaged in favour of China Construction Bank, Jinjiang Branch to secure loans facilities amounting to RMB13,000,000 to Fujian Dixing.	On land 9,048(1) On buildings 49,557(2)

Notes:

(1) Encompasses all land to which Factory A sits on including Factory A land.

(2) Encompasses all buildings erected the land to which Factory A sits on including on Factory A land.

(3) Parts of the three buildings were uncovered by the land-use-right certificate and property ownership certificate granted to Fujian Dixing and Fujian Dixing has submitted its application to the relevant authorities for the land-use-right. For details of the uncovered portions of these buildings, please refer to the following table below.

In addition to the above, our subsidiary Fujian Dixing, is currently in the process of applying for land use rights and property ownership certificates for the following properties:

Location	Description	Approximate Land Area (sq m)	Approximate Build Up Area (sq m)	Tenure
Part of Factory A	A 6 storey factory cum warehouse building together with parts of the 6 storey staff dormitory cum office building, the 7 storey staff dormitory building and the 9 storey administrative cum staff dormitory building	2,581	12,000	Pending(1)

9. OTHER INFORMATION *(Cont'd)*

Location	Description	Approximate Land Area (sq m)	Approximate Build-Up Area (sq m)	Tenure
No. 104 Yangding South Road, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC, Postal Code 362211 (福建省晋江市陈埭镇江头洋顶南路 104 号) ("Factory B")	3 buildings comprising a 2 storey staff dormitory building, a 2 storey factory building and a single storey ancillary factory building	3,100	4,200	Pending(2)

Notes:

*(1) By a letter dated 11 August 2009 the Villagers Committee of Jiangtou Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭镇江头回族村民委员会) ("**Villagers Committee**") confirmed that Fujian Dixing has paid the compensation for the use of the said land, and consequently, the Villagers Committee agrees to allow Fujian Dixing to apply for the relevant land-use-right certificate. The Jinjiang State-owned Land Resource Bureau (晋江市国土资源局) in its letter dated 10 August 2009 stated that the procedure for obtaining the said land-use-right certificate is under process and there are no legal obstacles for Fujian Dixing to complete the procedure for obtaining the land-use-right certificate. Further, the Jinjiang Planning Construction and Real Property Administration Bureau (晋江市规划建设与房产管理局) had via its letter dated 10 August 2009 stated that the authority will process the application procedure for granting the property ownership certificate to Fujian Dixing upon the issuance of the land-use-right certificate and there will be no legal obstacles for Fujian Dixing to obtain the property ownership certificate then.*

(2) Pursuant to the Villagers Committee's letter dated on 11 August 2009, Fujian Dixing has paid the compensation for the use of land to Factory B and, the Villagers Committee has agreed to allow Fujian Dixing to apply for the relevant land-use-right certificate for Factory B. Accordingly the Jinjiang State-owned Land Resource Bureau through its letter dated 10 August 2009 stated that the procedure for obtaining the said land-use-right certificate is under process and there are no legal obstacles for Fujian Dixing to complete the procedure for obtaining the land-use-right certificate. In addition, the Jinjiang Planning Construction and Real Property Administration Bureau had via its letter dated 10 August 2009 stated that the authority will process the application procedure for granting the property ownership certificate to Fujian Dixing upon the issuance of the land-use-right certificate and there will be no legal obstacles for Fujian Dixing to obtain the property ownership certificate then.

The leases of real or personal property to which Fujian Dixing is a party are as follows:

Location	Lessor / Lessee	Tenure	Land Area / Floor Area (sq m)	Annual Rent (RMB)	Description
No. 49 Qiyi Road, Wudai Industrial Zone, Chendai Town, Jinjiang City, Fujian Province, PRC, Postal Code 362211 (福建省晋江市陈埭镇七一路 49 号) ("Factory C")	Lessor: Fujian Jinjiang Liangxing Shoe Plastics Co., Ltd. (福建省晋江市梁兴鞋塑有限公司) Lessee: Fujian Dixing	01/03/2010 to 28/02/2012	396 (Land Area) 2,000 (Floor Area)	600,000	Leased factory. A 5 storey factory with 2 floors leased by Fujian Dixing for production.

9. OTHER INFORMATION *(Cont'd)*

Location	Lessor / Lessee	Tenure	Land Area / Floor Area (sq m)	Annual Rent (RMB)	Description
Part of Factory A	Lessor: Jinjiang Saifeite Shoes Plastics Co., Ltd (晋江市赛飞特鞋塑有限公司) Lessee: Fujian Dixing	01/10/2009 to 30/09/2012	675 (Land Area) 2,144.15 (Floor Area)	771,894	A 5 storey office building housing the showroom, administration office, General Manager's office, production office, sales and marketing office and warehouse.

Save as disclosed above and to the best of our Directors' knowledge and belief, in respect of the land and buildings owned or occupied by us as at the Latest Practicable Date:

(a) there are no other restrictions in interest or major encumbrances;

(b) there has not been any breach of land use conditions or permissible land use; and

(c) there has not been any material non-compliance with current statutory requirements or rules and regulations relating to land or building.

9.2 MATERIAL PLANT AND EQUIPMENT

As at the Latest Practicable Date there are no single plant or equipment which is material to our Group's business operations.

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10.1 HISTORY AND BACKGROUND

10.1.1 History and Background

Our Company was incorporated in Singapore under the Singapore Companies Act on 3 November 2008 as a private limited company under the name of K-Star Sports Pte Ltd. On 14 September 2009, we were converted into a public limited company and assumed our present name on the same day. We were registered in Malaysia as a foreign company on 16 September 2009 as K-Star Sports Pte Ltd and subsequently changed our name to K-Star Sports Limited on 17 September 2009 after registration with ROC.

Our Company has two registered offices, one in Singapore (as required under Section 142(1) of Singapore Companies Act) and the other in Malaysia (as required under Section 333(1A) of the Malaysian Companies Act) of which their addresses are set out in Section 1 of this Prospectus. The register of directors and officers and register of members of our Company are kept at the registered office in Singapore as required under the Singapore Companies Act, while certified or duplicate copies are maintained at the registered office in Malaysia.

By an equity transfer agreement dated 10 August 2009 and a restructuring agreement dated 9 September 2009, we acquired our subsidiary Fujian Dixing from Wing Shun. As at the date of this Prospectus, we do not have any associated company.

We are an investment holding company whilst our subsidiary is principally engaged in the design, manufacture and distribution of sports footwear under our own Proprietary Brands.

Our Group structure is set out below:

K-STAR

↓ 100%

FUJIAN DIXING

10.1.2 Share Capital

As at the date of this Prospectus, the issued and paid up capital of our Company is SGD45,775,152 comprising 73,479,000 Shares.

The changes in our issued and paid up share capital since our incorporation is as follows:

Date of issue	No. of shares issued	Consideration SGD	Cumulative issued and paid-up share capital SGD
3 November 2008	1	Cash	1
9 September 2009	60,158,999	Acquisition of Dixing	39,670,574
10 March 2010	4,440,000	Conversion of loan	41,170,574
10 March 2010	8,880,000	Conversion of loan	45,775,152

As at the date of this Prospectus, our Company does not have any outstanding warrants, options, convertible securities or uncalled capital.

10.1.3 Our shareholding structure since incorporation

Our shareholders and their interests in our Shares since our incorporation up to the Latest Practicable Date are as follows:

Name	As at 3 November 2008				As at 9 September 2009				As at the Date of this Prospectus			
	Direct interest		Indirect interest		Direct interest		Indirect interest		Direct interest		Indirect interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
K-Star International	1	100.00	-	-	60,159,000	100.00	-	-	51,858,500	70.58	-	-
Chan Kai Fly	-	-	1 [(1)]	100.00	-	-	60,159,000[(1)]	100.00	-	-	51,858,500 [(1)]	70.58
Ng Der Sian	-	-	-	-	-	-	-	-	1,776,000 [(2)]	2.42	888,000 [(3)]	1.21
Fortune United Investment Limited	-	-	-	-	-	-	-	-	3,552,000 [(4)]	4.83	-	-
EV Capital Private Limited	-	-	-	-	-	-	-	-	888,000 [(5)]	1.21	-	-
Yap Son On	-	-	-	-	-	-	-	-	4,304,500 [(6)]	5.86	-	-
Ng Chin Nam	-	-	-	-	-	-	-	-	80,000 [(4)]	0.11	-	-
Golden Eagle Resources Sdn. Bhd. (now known as A1 Capital Sdn Bhd)	-	-	-	-	-	-	-	-	4,400,000 [(4)]	5.99	-	-
Skylitech Resources Sdn. Bhd.	-	-	-	-	-	-	-	-	4,400,000 [(4)]	5.99	-	-
Jong Voon Hoo	-	-	-	-	-	-	-	-	2,220,000 [(5)]	3.02	-	-

Notes:

(1) Deemed interested by virtue of his shareholdings in K-Star International.

(2) Consist of 888,000 K-Star Shares converted pursuant to the Conversion of Loan and 888,000 K-Star Shares transferred pursuant to a share transfer agreement with Chan Kai Fly.

(3) Deemed interested by virtue of his direct interest in EV Capital Private Limited applying Section 6A of the Malaysian Companies Act.

(4) Converted pursuant to the Conversion of Loan.

(5) Transferred pursuant to a share transfer agreement with Chan Kai Fly.

(6) Consist of 3,108,000 K-Star Shares and 1,196,500 K-Star Shares transferred pursuant to a share transfer agreement with Chan Kai Fly.

As at the date of this Prospectus, save for the agreement that was entered into between Chan Kai Fly and Ding Jianping for a right of first refusal to be given to Ding Jianping to purchase the K-Star Shares held under K-Star International after the IPO and the moratorium period, Ding Jianping does not have any equity interest in our Shares, in order to ensure that Fujian Dixing is a WFOE for purpose of the Listing.

10.2 SUBSIDIARY

Fujian Dixing

10.2.1 History and business

Fujian Dixing was established as a wholly foreign owned enterprise in Jinjiang City, Fujian Province, PRC on 7 November 1992 under the PRC Laws as a limited liability company under the name of Fujian Jinjiang Dixing Shoes Plastics Co., Ltd. (福建省晋江市帝星鞋塑有限公司). Fujian Dixing was set up by Wing Shun and the legal representative at that time was Wong Luen-Wing (王联荣) the father of Chan Kai Fly. On 25 July 2005, the shareholdings in Fujian Dixing were changed to Wing Shun holding 87.5% of equity interest and Saifeite holding 12.5%. Ding Jianping was the then the legal representative. On 28 July 2008, Wing Shun bought over the remaining shares in Fujian Dixing from Saifeite and became the sole shareholder with Chan Kai Fly as the legal representative. The disposal by Saifeite of its entire equity interest in Fujian Dixing is part of our restructuring plan to streamline the company structure of Fujian Dixing as to ensure that Fujian Dixing is a WFOE. By an equity transfer agreement dated 10 August 2009 and restructuring agreement dated 9 September 2009, Wing Shun disposed its entire equity interest in Fujian Dixing to our Company. Fujian Dixing commenced its business on 7 November 1992. Fujian Dixing is principally engaged in the design, manufacture and distribution of sports footwear under our own Proprietary Brands.

10.2.2 Share capital

The present registered capital of Fujian Dixing is HKD16,000,000 and the contributions to its registered capital is HKD16,080,138.94.

The contributions to the registered capital of Fujian Dixing since its incorporation are as follows:

Date of change	Contribution HKD	Cumulative contribution to registered capital HKD
24.02.1995	4,335,365.13 (Contribution made in the form of cash, equipment, machines and motor vehicles)	4,335,365.13
08.05.2006	3,500,000 (Cash)	7,835,365.13
15.09.2006	8,244,773.81 (Cash)	16,080,138.94

As at the date of this Prospectus, Fujian Dixing does not have any outstanding warrants, options, convertible securities or uncalled capital.

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10. INFORMATION ON OUR GROUP *(Cont'd)*

10.2.3 Substantial shareholder and shareholding structure of Fujian Dixing

Fujian Dixing is a wholly-owned subsidiary of K-Star. The changes in the shareholding structure in Fujian Dixing for the past five (5) FYE 2005 to FYE 2009 are as follows:

Name	FYE 2005				FYE 2006				FYE 2007				FYE 2008				FYE 2009			
	Direct interest		Indirect interest		Direct interest		Indirect interest		Direct interest		Indirect interest		Direct interest		Indirect interest		Direct interest		Indirect interest	
	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%	Registered Capital HKD'000	%
Wing Shun	14,000	87.50	-	-	14,000	87.50	-	-	14,000	87.50	-	-	16,000	100.00	-	-	-	-	-	-
Saifeite	2,000	12.50	-	-	2,000	12.50	-	-	2,000	12.50	-	-	-	-	-	-	-	-	-	-
Chan Kai Fly	-	-	-	-	-	-	14,000 (1)	87.50	-	-	14,000 (1)	87.50	-	-	16,000 (1)	100.00	-	-	16,000 (2)	100.00
K-Star	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,000	100.00	-	-
K-Star International	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,000 (3)	100.00

Notes:

(1) Deemed interested by virtue of his direct interest in Wing Shun applying Section 6A of the Malaysian Companies Act.

(2) Deemed interested by virtue of his direct interest in K-Star International applying Section 6A of the Malaysian Companies Act.

(3) Deemed interested by virtue of K-Star International direct interest in K-Star applying Section 6A of the Malaysian Companies Act.

As at the date of this Prospectus, the shareholding structure of Fujian Dixing remains unchanged.

10.2.4 Subsidiary and Associate Company

As at the date of this Prospectus, Fujian Dixing does not have any subsidiary company or associate company.

10.3 MATERIAL CAPITAL EXPENDITURES AND DIVESTURES

The following sets out the material capital expenditures (including interests in other corporation) invested by our Group since our incorporation up to the Latest Practicable Date:

	Description	Amount invested RMB'000
1.	Factory building and production line at Factory A	4,315
2.	Factory building and production line at Factory A	15,588
3.	Factory building and production line at Factory B	4,800
4.	Staff dormitory at Factory A	5,141
5.	Admin cum management dormitory at Factory A	25,333
6.	Staff dormitory building	3,840
	Total	**59,017**

Save as disclosed above, to the best of our Directors' knowledge and belief there are no other material capital expenditures and/or divestures by our Group since the incorporation of Fujian Dixing until the Latest Practicable Date.

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11. INFORMATION ON OUR DIRECTORS, KEY MANAGEMENT, PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

11.1 BOARD OF DIRECTORS

Within the limits set out in our Articles of Association, our Board is responsible for the governance and management of our Company. To help ensure the effective discharge of the functions, our Board will endeavour to follow corporate governance guidelines which set out the following responsibilities:

(i) to review and approve the annual corporate plan of our Group, which includes the overall corporate strategy, marketing plan, human resource plan, information technology plan, financial plan, budget, regulations plan and risk management plan;

(ii) to oversee the conduct of our Group's business, and to evaluate whether the business are being properly managed;

(iii) to identify principal risks and ensure the implementation of appropriate systems to manage these risk;

(iv) to manage succession planning, including appointing, training, fixing the compensation of, and where appropriate, replacing senior management;

(v) to develop and implement an investor relations program or shareholders communications policy for our Group;

(vi) to review the adequacy and integrity of our Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines (including Bursa Securities LR, securities laws, and Singapore Companies Act);

(vii) to prepare a corporate governance statement in compliance with the Malaysian Code of Corporate Governance.

Our Articles of Association provide that our Board of Directors shall consist of no less than two (2) Directors with at least one Director being a Malaysian for so long as our Company continues to be listed on Bursa Securities. Under the Bursa Securities LR, at least two (2) of our Directors or one-third (1/3) of our Board of Directors, whichever is higher, must also at all times be Independent Directors.

As at the date of this Prospectus, our Board of Directors consists of 6 Directors, 2 of whom, are Independent Directors.

In accordance with our Articles of Association, one-third (1/3) of our Directors for the time being or, if their number is not a multiple of three (3), the number nearest to but not less than one-third (1/3) shall retire from office by rotation at each annual general meeting of the Company provided that a Director shall retire from office once at least in each three (3) years. A retiring Director shall be eligible for re-election.

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The members of our Board as at the date of this Prospectus are set out below:

Name	Age	Nationality	Date of Appointment	Designation
Ding Jianping (丁建萍)	53	Chinese	3 November 2008	Executive Chairman and CEO
Ding Zidi (丁梓迪)	26	Chinese	16 September 2009	Executive Director
Lim Yeow Eng	38	Singaporean	5 March 2010	Executive Director and Chief Financial Officer
Chan Kai Fly(陈启辉)	36	Hong Kong	3 November 2008	Non-Executive Director
Ooi Guan Hoe	34	Malaysian	5 March 2010	Independent Non-Executive Director
Lim Ghim Chai	35	Malaysian	5 March 2010	Independent Non-Executive Director

11.1.1 Profiles of our Directors

(i) Ding Jianping

Ding Jianping (丁建萍), Chinese, aged 53 is our Executive Chairman and CEO. He was appointed to our Board on 3 November 2008 and is responsible for the business strategy and development, and overall management and operations of our Group. He joined our Group since its inception in 1992 and has been instrumental in the expansion of our Group's business to its current status. He has more than 29 years of experience in the shoe manufacturing industry. After graduating from secondary school, in 1975, Ding Jianping (丁建萍) assisted his family in the farming industry. In 1981, he started his career as a sales supervisor under the employment with Fujian Jinjiang Jiangtou Leather Factory No. 10 (福建省晋江市江头皮革十厂). From 1984 to 1987, he worked as a sales director in Jiangtou Leather and Fabric Shoes Factory (江头皮革布鞋厂). From 1988 to 1992, he worked as a factory manager in Jiangtou Nanfang Leather and Plastics Factory (江头南方皮塑厂). His vast experience in the shoe manufacturing industry is integral to our Group's success and growth in the industry. He has been the Deputy President of Russia China Minnan Commerce Association (俄罗斯中国闽南商会) since 2006.

(ii) Ding Zidi

Ding Zidi (丁梓迪), Chinese, aged 26 is our Executive Director and was appointed to our Board on 16 September 2009. He is responsible for managing the design and development department, and human resource and administration department of our Group. He joined our Group as a management associate upon his graduation and was subsequently appointed as a Manager of the research and development department in June 2007. He graduated from Xiamen University (厦门大学) with an associate degree in e-business (电子商务) in 2006.

(iii) Lim Yeow Eng

Lim Yeow Eng, aged 38 is our Executive Director and Chief Financial Officer and was appointed to our Board on 5 March 2010. He joined our Group in September 2008 and is responsible for overseeing our Group's financial and accounting functions, and matters relating to the compliance and regulatory requirements of a listed company. He has more than 14 years experience in audit and financial reporting. He was the Financial Controller of Van der Horst Energy Limited, a public listed company in Singapore, from 2006 to 2008. Between 2000 and 2006, he joined Bridex Singapore Pte Ltd as an accountant and was overseeing the Group's financial and accounting reporting functions. He left the company as the finance manager. Prior to that he was an accountant in SBS Transit Limited and senior accountants in both ST Aerospace Engineering Pte Ltd and ST Aerospace Ltd in 2000. From 1995 to 1999, he was an auditor in Ernst & Young, where his last position was an audit supervisor. He graduated from Nanyang Technological University with a Bachelor of Accountancy (Honours) Degree and is a member of the Institute of Certified Public Accountants of Singapore.

In conjunction with our Listing, Lim Yeow Eng will also be regularly reviewing and monitoring our Group's internal control procedure and corporate governance. In addition, he will be spending more of his time in Malaysia and the PRC to attend to all the Group's matters including that of investor relations and Listing Requirements as required to be complied by K-Star.

(iv) Chan Kai Fly

Chan Kai Fly, aged 36 is our Non-Executive Director and was appointed to our Board on 3 November 2008. He graduated from the Chinese University of Hong Kong with a Bachelor of Science degree, majoring in Biology in 1997 and subsequently obtained a Masters degree in Library Management from University of CharlesStuart in 2007. He was employed as a tour escort from 1997 to 1998. From 1998 to 2000 he was employed as an assistant manager in McDonald. He now works as a Assistant Librarian in Hong Kong City Hall Public Library.

(v) Ooi Guan Hoe

Ooi Guan Hoe, aged 34, is our Independent Non-Executive Director and was appointed to our Board on 5 March 2010. He obtained a Bachelor Degree in Accountancy (Honours) from University Putra Malaysia in 1999 and is a member of the Malaysian Institute of Accountants. Upon graduation, he joined Arthur Andersen that later merged with Ernst & Young until October 2002. At Arthur Andersen, he was involved in the statutory audits of public listed companies, financial due diligence, reporting accountant work, feasibility studies, compliance review and financial modelling for the purposes of merger and acquisition exercises. He joined the Corporate Finance team of CIMB Investment Bank Berhad ("CIMB") in November 2002 and was involve in marketing, originating and implementing corporate proposals such as Initial Public Offering, Merger and Acquisition, REIT, joint venture, fund-raising, privatisation exercises and general financial advisory work. He left CIMB as a Senior Manager in October 2009. He currently provides financial advisory work to listed companies and companies preparing for listing in the Asia region.

(vi) Lim Ghim Chai

Lim Ghim Chai, aged 35, is our Independent Non-Executive Director and was appointed to our Board on 5 March 2010. He graduated with a Bachelor of Commerce (Accounting) Degree from La Trobe University, Melbourne, Australia, and is a member of the Malaysian Institute of Accountants and Malaysian Insurance Institute and the Certified Practising Accountant of Australia. He started working as a Financial Accountant in Acer Technologies (M) Sdn. Bhd. from 2000 to 2001 and was a Financial Analyst in Agilent Technologies (M) Sdn Bhd in 2001. Thereafter, he worked as an Accountant in Lorry Commercial Logistic Sdn Bhd in 2002. He was a Partner in a professional firm providing tax consultancy, business planning consultancy and auditing services, and director in companies providing accounting and secretarial services from 2003 until 2006. Presently, he is a Managing Director and Executive Director of a few companies in the businesses of interior design, property development and scrap recycling. He is also an independent non-executive director of AsiaEP Bhd, which is listed on the ACE Market of Bursa Securities.

11.1.2 Director's Shareholding

Our Board and their respective shareholdings in our Company before and after the IPO are as follows:

Name	Before the IPO				After the IPO			
	Direct interest		Indirect interest		Direct interest		Indirect interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Ding Jianping[(1)]	-	-	-	-	-	-	-	-
Ding Zidi	-	-	-	-	-	-	-	-
Lim Yeow Eng	-	-	-	-	-	-	-	-
Chan Kai Fly[(1)(2)]	-	-	51,858,500	70.58	-	-	51,858,500	58.40
Ooi Guan Hoe	-	-	-	-	-	-	-	-
Lim Ghim Chai	-	-	-	-	-	-	-	-

Notes:

(1) An agreement has been entered into between Chan Kai Fly, being the sole shareholder of K-Star International and Ding Jianping for a right of first refusal to be given to Ding Jianping to purchase the K-Star Shares held under K-Star International after the IPO and the moratorium period.

(2) Deemed interested by virtue of his shareholdings in K-Star International.

11.1.3 Directorships and Substantial Shareholdings in All Other Public Corporations for the Past Five (5) Years

Save as disclosed below, none of our Directors have held any directorships or has substantial shareholdings in other public corporations in the five (5) years preceeding the Latest Practicable Date.

Name	Public corporation	Directorship		Substantial Shareholdings as at the Latest Practicable Date			
				Direct Interest		Indirect Interest	
		Date appointed	Date resigned	No. of Shares	%	No. of Shares	%
Lim Ghim Chai	AsiaEP Berhad	11.04.2008	-	-	-	-	-

11.1.4 Service Contracts with Directors

Our Company has on 16 September 2009 entered into a Service Agreement with our Executive Chairman and CEO, Ding Jianping (丁建萍) (**"Service Agreement"**). The Service Agreement is valid for an initial period of three years with effect from IPO. Upon the expiry of the initial period of three years, Ding Jianping's employment shall be automatically renewed on a year-to-year basis on such terms and conditions as the parties may agree. During the initial period of three years, either party may terminate the Service Agreement by giving to the other party not less than six months' notice in writing, or in lieu of notice, payment of an amount equivalent to six months' salary based on Ding Jianping's last drawn monthly salary. Our Group may also terminate the Ding Jianping's employment without notice or payment in lieu of notice under, inter alia, the following circumstances: -

(i) if Ding Jianping is guilty of any gross default or grave misconduct in connection with or affecting the business of our Company;

(ii) in the event of any serious or repeated breach or non-observance by the Ding Jianping of any of the stipulations contained in the Service Agreement;

(iii) if the Ding Jianping become bankrupt or make any composition or enter into any deed of arrangement with his creditors; or

(iv) if the Ding Jianping shall become of unsound mind.

Pursuant to the terms of the Service Agreement, Ding Jianping is entitled to receive a monthly salary of RMB120,000. All travelling and travel-related expenses, entertainment expenses and other out-of-pocket expanses reasonably incurred by the Ding Jianping in the process of discharging his duties on behalf of our Group will be borne by our Company.

The Ding Jianping will also be entitled to a portion of an annual performance bonus ("Annual Performance Bonus") for each financial year based on a percentage of our PBT for that financial year which is in excess of the relevant minimum amount of PBT for that financial year and that the Ding Jianping are under the employment of our Group on the last day of that financial year. For this purpose, "PBT" shall refer to the audited consolidated profit before taxation of our Group and before profit sharing (after deducting profit before tax attributable to minority interests) and before deducting the performance bonus. The Annual Performance Bonus (in the event PBT is no less than RMB100 million) of Ding Jianping for FYE 2009, FYE 2010 and FYE 2011 will be determined as follows:

FYE	Bonus to be paid to Ding Jianping (based on percentage of PBT)
2009	1% x PBT for 1st RMB100 million 2% x (PBT – RMB100 million) for the next RMB50 million 3% x (PBT – RMB150 million) thereafter.
2010	1% x PBT for 1st RMB100 million 2% x (PBT – RMB100 million) for the next RMB50 million 3% x (PBT – RMB150 million) thereafter.
2011	1% x PBT for 1st RMB100 million 2% x (PBT – RMB100 million) for the next RMB50 million 3% x (PBT – RMB150 million) thereafter.

Under the Service Agreements, Ding Jianping has covenanted not to, without the prior written consent of our Company, do business with any person who has done business with us or entice away any of our employees in connection with the carrying on of any business similar to or in competition with our business for 12 months after ceasing to be employed under his Service Agreement. Ding Jianping has also covenanted not to, without our prior written consent, carry on any activity or business in competition with us within Singapore or any country in which we have operations or carried on business, for 12 months after ceasing to be employed under his Service Agreement.

Save as disclosed above, there are no other existing or proposed service agreements between our Company or our subsidiaries and any of our Directors or Executive Officers.

There is no existing or proposed service contract entered or to be entered into by our Directors with our Company or any of our subsidiaries which provide for benefits upon termination of employment.

11.1.5 Directors' Remuneration and Benefits

The aggregate remuneration and benefits paid and proposed to be paid to our Directors for services rendered to our Group in all capacities was approximately RMB1,065,000 for the FYE 2009 and estimated at RMB3,150,000 for the FYE 2010.

The remuneration which includes our Directors' salaries, bonuses, fees and allowances as well as other benefits of our Directors, must be considered and recommended by the Remuneration Committee and subsequently, be approved by our Board. Our Directors' fees must be further approved by our shareholders at a general meeting.

The remuneration and benefits paid/estimated to be paid to our Directors are as follows:

Directors	Remuneration band	
	FYE 2009 (Actual) RMB	FYE 2010 (Estimated) RMB
Ding Jianping	200,000 – 250,000	1,000,000 – 1,050,000 (1)
Ding Zidi	100,000 – 150,000	300,000 – 350,000
Lim Yeow Eng	650,000 – 700,000 (2)	1,350,000 – 1,400,000
Chan Kai Fly	-	150,000 – 200,000
Ooi Guan Hoe	-	150,000 – 200,000
Lim Ghim Chai	-	100,000 – 150,000

Notes:

(1) *The estimated remuneration band for FYE 2010 does not take into account the annual performance bonus pursuant to the Service Agreement. Please refer to Section 11.1.4 of the Prospectus for further details.*

(2) *For comparison purposes only. Lim Yeow Eng was not a director during FYE 2009 and was only appointed as a director on 5 March 2010.*

11.1.6 Directorships of our Directors in Other Businesses/Corporations

Save as disclosed below, none of our Directors have held any directorships in other businesses or corporations in the past five (5) years preceding the Latest Practicable Date.

Name of company	Principal Activity
<u>**Lim Ghim Chai**</u>	
Current directorships	
CSH Recycle Sdn. Bhd.	Plastic and metal scrap recycling
CSH Water Solution (M) Sdn. Bhd.	Provision of industrial waste water treatment solutions
Duta Palms Development Sdn. Bhd.	Property development
Hecta Consolidated Sdn. Bhd.	Property development
Hikmat Bumimas Sdn. Bhd.	Property development
Dutamas Formation Sdn. Bhd.	Investment holding
Bioworld Vision Sdn. Bhd.	Property development
Enrich Heritage Sdn. Bhd.	Property development
Dutamas Permai Sdn. Bhd.	Property development
Zone Art Interior Design Sdn. Bhd.	Provision of interior design consultancy services and renovation
Mforce Power Sdn. Bhd.	Motorcycle assembler and distributor
Absolute Success Holdings Sdn. Bhd	Investment holding
Euro Equity Sdn. Bhd.	Investment holding
Temasek Mission Sdn. Bhd.	Property development
City Brand Sdn. Bhd.	Property development
Past directorships	
Maxwell Business Management & Consultancy	Provision of tax planning, business consultancy and auditing services
Maxwell Business Solutions Sdn. Bhd.	Provision of accounting services
OKN-MAX Consultancy Sdn. Bhd,	Provision of company secretarial services
Eden Continental Sdn. Bhd.	General trading
OKN-MAX Corporate Services Sdn. Bhd.	Provision of company secretarial services

11.2 AUDIT, REMUNERATION AND NOMINATION COMMITTEE

11.2.1 Audit Committee

Our Audit Committee was established on 5 March 2010 and its members are appointed by our Board. Our Audit Committee shall comprise no fewer than three (3) members, all of whom shall be Non-Executive Directors and with a majority of them being Independent Non-Executive Directors of our Company.

Our Audit Committee will assist our Board in discharging its responsibility to safeguard our assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that our management creates and maintains an effective control environment in our Group. Our Audit Committee will provide a channel of communication between our Board, our management and our external auditors on matters relating to audit.

Our Audit Committee will meet periodically to perform the following functions:

(a) review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to management and the management's response. Also ensuring a clear and direct line of communication between our Board and the external auditors through meetings;

(b) review the half yearly and annual, and quarterly if applicable, financial statements and results announcements before submission to our Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Bursa Securities LR and any other relevant statutory or regulatory requirements;

(c) review the internal control procedures and ensure co-ordination between the external auditors and our management, and review the assistance given by our management to the auditors, and discuss problems and concerns, if any, arising from audits, and any matters which the auditors may wish to discuss (in the absence of our management, where necessary);

(d) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and our management's response;

(e) consider and recommend the appointment or re-appointment of the external auditors and matters relating to the resignation or dismissal of the auditors;

(f) enhance the independence of the external and internal auditors function through active participation in the audit process;

(g) review related party transactions (if any) falling within the of the scope of the Bursa Securities LR;

(h) review potential conflicts of interest (if any);

(i) review and approve all hedging policies and instruments (if any) to be implemented by the Group;

(j) undertake such other reviews and projects as may be requested by our Board, and report to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee;

(k) review and establish procedures for receipt, retention and treatment of complaints received by the Group regarding *inter alia*, criminal offences involving the Group or its employees, questionable accounting, auditing, business, safety or other matters that impact negatively on the Group;

(l) generally undertake such other functions and duties as may be required by statute or the Bursa Securities LR, or by such amendments as may be made thereto from time to time; and

(m) to monitor, review and assess the utilisation of proceeds are consistent with the intention presented to investors for any fund raising exercise.

Our Audit Committee will meet, at a minimum, on a quarterly basis. Apart from the duties listed above, our Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Malaysian law, rule or regulation which has or is likely to have a material impact on our operating results and/or financial position. In the event that a member of our Audit Committee is interested in any matter being considered by our Audit Committee, he will abstain from reviewing that particular transaction or voting on that particular resolution.

Our Audit Committee currently consists of the following members:

Name	Designation	Directorship
Ooi Guan Hoe	Chairman	Independent Non-Executive Director
Chan Kai Fly	Member	Non Executive Director
Lim Ghim Chai	Member	Independent Non-Executive Director

11.2.2 Remuneration Committee

Our Remuneration Committee was established on 5 March 2010 and its members are appointed by our Board. Our Remuneration Committee shall comprise no fewer than three (3) members, the majority of whom shall be Independent Non-Executive Directors of our Company.

Our Remuneration Committee will recommend to our Board a framework of remuneration for the Directors and Executive Officers, compensation to for our Company's Non-Executive Director, and determine specific remuneration packages for each Executive Director. The recommendations of our Remuneration Committee shall be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind shall be covered by our Remuneration Committee. In addition, our Remuneration Committee will perform an annual review of the remuneration of employees related to our Directors and Substantial Shareholders to ensure that their remuneration packages are in line with our staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. They will also review and approve any bonuses, pay increases and/or promotions for these employees. Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration package or that of employees related to him.

Our Remuneration Committee currently consists of the following members:

Name	Designation	Directorship
Lim Ghim Chai	Chairman	Independent Non-Executive Director
Ding Jianping (丁建萍)	Member	Executive Chairman and CEO
Ooi Guan Hoe	Member	Independent Non-Executive Director

11.2.3 Nomination Committee

Our Nomination Committee was established on 5 March 2010 and its members are appointed by our Board. Our Nomination Committee shall comprise no fewer than three (3) members, the majority of whom shall be Independent Non-Executive Directors of our Company.

Our Nomination Committee will be responsible for:

(a) reviewing and recommending the nomination or re-nomination of our Directors having regard to the Director's contribution and performance;

(b) determining on an annual basis whether or not a Director is independent;

(c) assessing the performance of the Board and contribution of each Director to the effectiveness of the Board; and

(d) review and approve any new employment of related persons and the proposed terms of their employment.

Our Nomination Committee will recommend a framework for the evaluation of the Board's and individual Director's performance for the approval of the Board. Each member of our Nomination Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as director.

Our Nomination Committee currently consists of the following members:

Name	Designation	Directorship
Chan Kai Fly	Chairman	Non-Executive Director
Ooi Guan Hoe	Member	Independent Non-Executive Director
Lim Ghim Chai	Member	Independent Non-Executive Director

11.3 KEY MANAGEMENT

Our key management is responsible for our Group's day-to-day management and operations. Our key management consist of experienced personnel in charge of matters relating to production and design and development of our products, sales and procurement, quality control and finance.

The members of our key management as at the date of this Prospectus are set out below:

Name	Age	Nationality	Designation
Ding Jianping (丁建萍)	53	Chinese	Executive Chairman and CEO
Ding Zidi (丁梓迪)	26	Chinese	Deputy General Manager, Product Development and Administration
Huang Yanbin (黄燕宾)	38	Chinese	Deputy General Manager, Production
Lim Yeow Eng	38	Singaporean	Executive Director and Chief Financial Officer
Li Zijun (李资君)	36	Chinese	Deputy General Manager, Sales and Marketing
Zhong Ming (钟明)	47	Chinese	Deputy General Manager, Quality Assurance

11.3.1 Profiles of our Key Management

Save for the profiles of Ding Jianping (丁建萍), Ding Zidi (丁梓迪) and Lim Yeow Eng, which are set out in Section 11.1.1 of this Prospectus, the profiles of our key management are as follows:

(i) Huang Yanbin (黄燕宾)

Huang Yanbin (黄燕宾), Chinese, aged 38 is the Deputy General Manager for Production of our Group. He is responsible for managing the production department of the Group. He graduated in 1990 from Anxi District High School No. 6. Prior to joining our Group, he worked as a production worker in Jiangtou Nanfang Leather and Plastics Factory (江头南方皮塑厂) from 1990 to 1992.

(ii) Li Zijun (李资君)

Li Zijun (李资君), Chinese, aged 36, is the Deputy General Manager for Sales and Marketing of our Group and is responsible for managing the sales to both PRC domestic and overseas markets. After obtaining a associate bachelor degree in Chinese from Hunan Normal University (湖南师范大学) in 1997, he started his career as a teacher from 1997 to 1998 in Jiahe District High School No. 3. From 1999 to 2000 he worked as an assistant manager in Guangdong Zhongshan Weijing (Hong Kong) Shoes Co., Ltd. (广东中山伟景（香港）鞋业有限公司). Subsequent to that he worked with Jinjiang Hengyu Shoes Co., Ltd. (晋江恒宇鞋业有限公司) as an administrative manager from 2001 to 2003. He later left in 2004 to work as a sales representative and subsequently promoted to sales manager in Jinjiang Xin Ji Yuan Shoes & Apparel Company (晋江新纪元鞋服公司). He joined our Group in June 2005 as our Sales Manager.

(iii) Zhong Ming (钟明)

Zhong Ming (钟明), Chinese, aged 47, is the Deputy General Manager for Quality Assurance of our Group and is responsible for our Group's overall quality assurance. He completed his high school education in 1981. Prior to starting his own brick factory in 1990, He was involved in various trades and small business. In 1993, Mr. Zhong entered the shoe manufacturing industry as a production supervisor at Jinjiang Hengyu Shoes Co., Ltd. Thereafter, he worked as a factory manager at Rock Lion Strength Shoe Factory from 1995 to 1996 before joining our Group as an assistant production supervisor.

11.3.2 Key Management's Shareholding

None of our key management has any shareholdings direct or indirect in our Company before or after the IPO.

11.3.3 Service Contracts of Key Management

As at the date of this Prospectus, save for the service contract of Ding Jianping, as set out in Section 11.1.4 of this Prospectus, there are no existing or proposed service contracts between our key management personnel and our Group other than employment contacts containing normal terms of employment.

11.3.4 Involvement of Key Management in Other Businesses/Corporations

None of our key management personnel are involved in the operations of other business or corporations.

11.4 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in accordance with the Malaysian Companies Act refers to persons having an aggregate of not less than 5% interest, whether direct or indirect of the total voting shares in a corporation. For purposes of this definition, the term "interest" shall have the same meaning ascribed to it in Section 6A of the Malaysian Companies Act.

11.4.1 Shareholdings

Our promoters and substantial shareholders and their interests in our Shares before and after the IPO based on the Register of Members as at the Latest Practicable Date are as follows:

Name	Before the IPO				After the IPO			
	Direct interest		Indirect interest		Direct interest		Indirect interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
K-Star International	51,858,500	70.58	-	-	51,858,500	58.40	-	-
Chan Kai Fly(1)(2)	-	-	51,858,500	70.58	-	-	51,858,500	58.40
Ding Jianping(2)	-	-	-	-	-	-	-	-

Note:

(1) Deemed interested by virtue of his shareholdings in K-Star International.

(2) An agreement has been entered into between Chan Kai Fly, being the sole shareholder of K-Star International and Ding Jianping for a right of first refusal to be given to Ding Jianping to purchase the K-Star Shares held under K-Star International after the IPO and the moratorium period.

11.4.2 Profiles of our promoters and substantial shareholders

Save for the profiles of Chan Kai Fly and Ding Jianping which are set out in Section 11.1.1 of this Prospectus, the profiles of persons who are both our Promoters and substantial shareholders are set out below:

(i) K-Star International

K-Star International is a substantial shareholder and Promoter of our Company and has been involved in the affairs of our Company since the incorporation of our Company. K-Star International was incorporated in Bermuda on 30 April 2008 and is principally an investment holding company.

As at the Latest Practicable Date, the sole shareholder of K-Star International is Chan Kai Fly who holds the entire issued and paid-up share capital of K-Star International.

As at the Latest Practicable Date, the directors of K-Star International are Chan Kai Fly and Ding Jianping.

11.4.3 Changes in promoter's and substantial shareholder's shareholdings in the Company for the past three (3) years

The changes of our promoters and substantial shareholders and their interests in our Shares since our incorporation up to the Latest Practicable Date are as follows:

Name	As at 3 November 2008				As at the Latest Practicable Date			
	Direct interest		Indirect interest		Direct interest		Indirect interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
K-Star International	1	100.00	-	-	51,858,500	70.58	-	-
Chan Kai Fly[1]	-	-	1	100.00	-	-	51,858,500	70.58
Ding Jianping	-	-	-	-	-	-	-	-

Note:

(1) Deemed interested by virtue of his shareholdings in K-Star International

There has been no change in our promoter's and substantial shareholder's interest in our Shares since the Latest Practicable Date up to the date of the Prospectus.

11.5 RELATIONSHIPS OR ASSOCIATIONS

Save as disclosed, there are no family relationships/associations between our Directors, key management, Substantial Shareholder and Promoters.

(i) Ding Jianping is the father of Ding Zidi; and

(ii) Chan Kai Fly is the brother-in-law of our Ding Jianping and the uncle of Ding Zidi.

11.6 DECLARATION BY OUR DIRECTORS, KEY MANAGEMENT AND PROMOTERS

None of our Directors and key management and Promoters is or has been involved in any of the following events (whether in or outside Malaysia):

(i) a petition under any bankruptcy or insolvency laws that was filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a Director or key personnel;

(ii) disqualified from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;

(iii) charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;

(iv) any judgement was entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or

(v) the subject of any order, judgement or ruling of any court, government, or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

11.7 EMPLOYEES

The functional distribution of our total number of employees at the end of the past three (3) financial years is as follows:

Category of employees	Number of Employees				Average Years of Service
	FYE 2006	FYE 2007	FYE 2008	FYE 2009	
Management	6	6	6	6	3
Administration and Finance	17	17	22	22	4
R&D / Product Development	35	35	35	35	4
Production	719	961	961	959	3
Quality Control	16	24	25	25	3.5
Sales and Marketing	10	10	15	16	3
Total	803	1,053	1,064	1,063	

Note:

(1) Executive Directors and key management personnel are classified under management.

As at the Latest Practicable Date, we have a workforce of about 1,063 full-time employees. Save for our Chief Financial Officer Lim Yeow Eng, who is based in Singapore, all of our Group's employees are based in the PRC. Our employees are not unionised. The relationship and co-operation between the management and staff have been good and are expected to continue in the future. There has not been any incidence of work stoppages or labour disputes which affected our operations.

Staff Training

We view our human resource as one of our key assets and place strong emphasis on staff training which we believe is an important factor to establish an effective work force and implement consistent quality in our products.

We provide training for our employees to help them acquire the necessary skills, knowledge and expertise relevant to their jobs as well as to improve their work efficiency, effectiveness and productivity. Our staff training is mainly conducted in-house and such training includes orientation programs for our new employees to familiarise themselves with the general working environment of our company and our products, quality assurance measures and safety procedures, as well as on the job training to equip new employees with the skills necessary to perform their duties. In addition, we also engage external professionals to provide management training and industry updates to our management-level employees.

Our staff training expenditures which did not exceed RMB50,000 per annum for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 have been insignificant.

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12. APPROVALS AND CONDITIONS

12.1 LISTING SCHEME

In conjunction with, and as an integral part of the listing and quotation for the entire issued and paid-up share capital of our Company on the Main Market, we undertook a flotation exercise which was approved by the following authorities:

(i) SC vide its letter dated 20 January 2010;

(ii) SAC vide its letters dated 28 December 2009 and 12 April 2010,

which involves the following exercises:

12.1.1 Acquisition

Pursuant to the equity transfer agreement dated 10 August 2009 entered into by our Company and the vendor of Fujian Dixing, namely Wing Shun ("Equity Transfer Agreement") and the restructuring agreement dated 9 September 2009 entered into by our Company, the vendors of Fujian Dixing and K-Star International ("Restructuring Agreement"), we had acquired the entire equity interest in Fujian Dixing from Wing Shun for a total purchase consideration of SGD39,670,573, which was wholly satisfied by the issuance of 60,158,999 new Shares.

Pursuant to the Restructuring Agreement, the vendor of Fujian Dixing, namely Chan Kai Fly, being the sole shareholder of Wing Shun, agreed and directed that all 60,158,999 new Shares for which Wing Shun is entitled be issued and allotted to K-Star International.

The purchase consideration of SGD39,670,573 for the Acquisition was agreed upon based on a "willing-buyer willing-seller" basis, after taking into consideration the NTA of Fujian Dixing as at 30 June 2009 of approximately RMB189,268,000.

The completion of the Acquisition on 9 September 2009 resulted in the issued and paid-up share capital of K-Star increasing from SGD1.00 comprising 1 Share to SGD39,670,574 comprising 60,159,000 Shares.

12.1.2 Conversion of Loan

The Conversion of Loan is the conversion of loans pursuant to the investment and convertible loan agreements made between our Company and various pre-IPO investors, amounting to SGD 1,500,000 and RM11,000,000 into 13,320,000 new Shares, representing approximately 15% of the enlarged issued and paid-up share capital of our Company. The details are as follows:

(i) Investment Agreement and Supplementary Investment Agreement

On 30 August 2009, our Company entered into a Supplementary Investment Agreement with Fujian Dixing, Ding Jianping, Chan Kai Fly, Fortune United Investment Limited and Ng Der Sian (collectively referred to as "Pre-IPO Investors A"), under which our Company assumed the obligations of Fujian Dixing, under an Investment Agreement dated 26 October 2008 between Fujian Dixing, Ding Jianping and the Pre-IPO Investors A, where the Pre-IPO Investors A had agreed to make a loan of SGD1,500,000 to Fujian Dixing to facilitate the latter's payment of fees for its proposed IPO exercise, in return for which Fujian Dixing and Ding Jianping had agreed to procure the Company to issue 5% of our Shares to the Pre-IPO Investors A. The Pre-IPO Investors A had also agreed to a six (6) months lock-up period on 50% of the Shares issued to them whereby they shall not sell any of the issued Shares.

(ii) Convertible Loan Agreements

On 18 September 2009, our Company together with our Promoter and substantial shareholder, K-Star International had entered into Convertible Loan Agreements with Skylitech Resources Sdn Bhd, Golden Eagle Resources Sdn Bhd (now known as A1 Capital Sdn Bhd) and Ng Chin Nam respectively (collectively referred to as "Pre-IPO Investors B"), whereby the Pre-IPO Investors B will invest an aggregate of RM11,000,000 in our Company and is convertible to the higher of 8,880,000 new Shares or 10% of our enlarged share capital after the IPO. The Pre-IPO Investors B had also agreed to a six (6) months lock-up period on all the converted Shares whereby they shall not sell any of the converted Shares unless otherwise agreed by the respective parties to the Convertible Loan Agreements.

The Conversion of Loan pursuant to the Investment Agreement, the Supplementary Agreement and the Convertible Loan Agreements are summarised as follows:

Pre-IPO Investor	Loan / Investment amount	No. of Shares upon Conversion of Loan	Shareholdings %
Fortune United Investment Limted	SGD1,200,000	3,552,000	4.00
Ng Der Sian	SGD300,000	888,000	1.00
Skylitech Resources Sdn Bhd	RM4,950,000	4,400,000	4.955
Golden Eagle Resources Sdn Bhd (now known as A1 Capital Sdn Bhd)	RM4,950,000	4,400,000	4.955
Ng Chin Nam	RM1,100,000	80,000	0.09

None of the pre-IPO Investors are related to any Directors, key management and/or substantial shareholders of our Company.

The completion of the Conversion of Loan on 10 March 2010 resulted in the issued and paid-up share capital of K-Star increasing from SGD39,670,574 comprising 60,159,000 Shares to SGD45,775,152 comprising 73,479,000 Shares.

12.1.3 Public Issue

Our company proposes to implement a public issue of 15,321,000 new Shares at an issue price of RM2.15 per Share payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted in the following manner:

(a) 3,401,000 Public Issue Shares will be made available for application by Malaysian Public via balloting; and

(b) 11,920,000 Public Issue Shares will be reserved for private placement to selected investors.

12.1.4 Listing

Upon completion of the Public Issue, the entire enlarged issued and paid-up share capital comprising 88,800,000 Shares on the Main Market.

12.2 APPROVALS AND CONDITIONS

12.2.1 Approvals in Malaysia

(i) The SC had via its letter dated 20 January 2010 approved our IPO pursuant to Section 212(5) of the CMSA and the SC Guidelines, subject to compliance with the following conditions:

Details of Conditions Imposed		Status of Compliance
(a)	PIVB / K-Star should fully disclose the independent auditors' report from Messrs. FKT Grant Thornton in the listing Prospectus;	Complied. Please refer to Appendix F of this Prospectus.
(b)	K-Star should ensure that, post listing, K-Star's independent auditor is an internationally affiliated accounting firm;	Complied and will continue to comply. K-Star's current independent auditor, Foo Kon Tan Grant Thornton is an internationally affiliated accounting firm.
(c)	K-Star is required to amend its constituent documents to ensure that the Company be subjected to the provisions of Division 2 of Part IV of the Securities Commission Act, 1993 and the Malaysian Code on Take-Overs and Mergers, 1998, as well as submit an undertaking that the Company will comply with the said provisions;	Complied. K-Star had on 12 January 2010 submitted the required undertaking letter to the SC.
(d)	K-Star is required to obtain the land-use-rights and property ownership certificates within 6 months from the date of the SC's approval for Factory A Land and Factory B Land, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC;	To be complied.
(e)	K-Star is required to obtain prior clearance of the SC for the appointment of the 2 Malaysian directors on the Board of Directors of K-Star before the registration of the listing Prospectus;	Complied.
(f)	K-Star is required to disclose and explain in its listing Prospectus the history of the shareholding structure in the Company and Fujian Dixing, and the rationale for Ding Jianping not holding any shares in K-Star;	Complied. Please refer to Section 10 of this Prospectus.
(g)	K-Star's investors as identified below are not allowed to sell, transfer or assign their entire shareholding in K-Star as at the date of Listing for a period of 6 months from the date of Listing	Complied. The Pre-IPO Investors A and the Pre-IPO Investors B had given their undertaking that they will not sell, transfer or assign their entire shareholdings in K-Star for a period of six (6) months from the date of Listing.

Pre-IPO Investors	No. of Shares	% of the enlarged share capital of K-Star
Fortune United Investment Limited	3,552,000	4.00
Skylitech Resources Sdn Bhd	4,400,000	4.95
Golden Eagle Resources Sdn Bhd (now known as A1 Capital Sdn Bhd)	4,400,000	4.95
Yap Son On	4,304,500	4.85
Ng Der Sian	1,776,000	2.00
Ng Chin Nam	80,000	0.09
EV Capital Private Limited	888,000	1.00
Jong Voon Hoo	2,220,000	2.50
Total		**24.34**

; and

(h)	PIVB / K-Star should fully comply with the requirements of the Equity and Prospectus Guidelines pertaining to the implementation of the proposal.	To be complied, where applicable.

(ii) The SAC had via its letter dated 28 December 2009 and 12 April 2010, classified our Company's Shares as Shariah-compliant based on the audited combined financial statements of our Group for the FYE 2008 and FYE 2009 respectively.

12.2.2 Approvals in Singapore

KhattarWong, our Legal Adviser on Singapore Law has confirmed that:

(i) there are no governmental or regulatory consents, approvals, authorisations or orders which are required in the Singapore to enable our Company to carry out or perform any of the matters listed below:

(a) list on the Main Market of Bursa Securities; and

(b) carry out the listing scheme as set out in Section 12.1 of this Prospectus;

(the matters referred to in (a) and (b) above shall be referred to as the "Matters")

(ii) there are no registration, filing or similar formalities required in the Singapore in respect of the Matters.

12.2.3 Approvals in PRC

Grandall Legal Group (Guangzhou), our PRC legal adviser have confirmed that:

(i) there are no governmental or regulatory consents, approvals, authorisations or orders which are required in the PRC to enable our Company to carry out or perform any of the matters listed below:

(a) list on the Main Market of Bursa Securities; and

(b) carry out the listing scheme as set out in Section 12.1 of this Prospectus;

(the matters referred to in (a) and (b) above shall be referred to as the "Matters")

(ii) there are no registration, filing or similar formalities required in the PRC in respect of the Matters.

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12. APPROVALS AND CONDITIONS *(Cont'd)*

12.3 MORATORIUM ON THE SALE OF PROMOTERS' SHARES

Pursuant to the Equity Guidelines, all Shares held by our Promoters representing 58.40% of our nominal issued and paid-up share capital at the date of admission of our Company to the Official List of the Main Market of Bursa Securities are to be placed under moratorium. The details of the Promoters' Shares subject to moratorium are as follows:

	Direct Shareholdings		Indirect Shareholdings	
Name	No. of Shares	%	No. of Shares	%
K-Star International	51,858,500	58.40	-	-
Chan Kai Fly[(1)]	-	-	51,858,500	58.40%
Ding Jianping (丁建萍)	-	-	-	-

Note:

(1) Deemed interest by virtue of his direct sole shareholdings in K-Star International.

Our Promoters are fully aware and understand the moratorium. They have accepted that they are not allowed to sell, transfer or assign their entire shareholdings in the applicant as at the date of listing, for six months from the date of Listing on Bursa Securities ("Moratorium Period"), by providing written undertakings that they shall not sell, transfer or assign their respective shareholdings during the Moratorium Period.

The Share Registrar and Bursa Depository have been informed in relation to the moratorium restriction on our Promoters, to ensure that they do not register any transfer of Shares contravening the above moratorium restriction.

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13. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

13.1 RELATED PARTY TRANSACTIONS

Under the Bursa Securities LR that are applicable to companies listed on the Main Market, a related party transaction is a transaction entered into by a listed company or its subsidiaries that involves the interests, direct or indirect, of a related party. A related party of a listed company is:

(i) a director;

(ii) a major shareholder having an interest in one or more voting shares in a company and the nominal amount of those shares is:

(a) equal to or more than 10% of the aggregate of the nominal amounts of all the voting shares in the company; and

(b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the company where such persons is the largest shareholder of the company,

of the listed company or its subsidiaries or holding company or the subsidiaries of its holding company and includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon, a director, major shareholder. Further, a related party includes a person connected with such director or major shareholder.

A disclosure is also required if the Group enters into a transaction with its key management.

13.1.1 Non-Recurrent Related Party Transactions

Saved as disclosed below, there are no existing or potential non-recurrent related party transactions for the past four (4) FYE 2006 to FYE 2009 that we have entered into in respect of which rights and obligations are subsisting and/or proposed as at the date of this Prospectus.

(i) Loans/ Advances to Directors/ shareholders in respect of the past four (4) FYE 2006 to FYE 2009:

Transacting parties	Nature of relationship	Nature of transaction	Transaction value			
			FYE 2006 RMB '000	FYE 2007 RMB '000	FYE 2008 RMB '000	FYE 2009 RMB '000
Ding Jianping and Fujian Dixing	Our Executive Chairman and CEO	Non-trade advance by Ding Jianping to Fujian Dixing for its working capital use.	11,745	5,143	112	26
Ding Jianping and Fujian Dixing	Our Executive Chairman and CEO	Settlement of non-trade advance by Fujian Dixing to Ding Jianping	(4,981)	(4,939)	(7,750)	-
Saifeite* and Fujian Dixing	Our Executive Chairman and CEO was a previous shareholder of Saifeite (from 21 January 2003 to 17 October 2008)	Non-trade advance by Saifeite to Fujian Dixing for its working capital use.	3,830	1,500	9,770	-

13. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST *(Cont'd)*

Transacting parties	Nature of relationship	Nature of transaction	Transaction value			
			FYE 2006 RMB '000	FYE 2007 RMB '000	FYE 2008 RMB '000	FYE 2009 RMB '000
Saifeite and Fujian Dixing	Our Executive Chairman and CEO was a previous shareholder of Saifeite (from 21 January 2003 to 17 October 2008)	Settlement of non-trade advance by Fujian Dixing to Saifeite	(3,830)	(1,500)	(9,770)	-
Wing Shun and Fujian Dixing	Chan Kai Fly, our Promoter and Non-Executive Director is the sole proprietor of Wing Shun	Non-trade advance to Wing Shun Trading Company for acquisition of 12.5% equity interest in Fujian Dixing	-	-	(2,120)	-
Wing Shun and Fujian Dixing	Chan Kai Fly, our Promoter and Non-Executive Director is the sole proprietor of Wing Shun	Settlement of non-trade advance by Wing Shun Trading Company	-	-	-	2,120

Note:

* *Saifete was incorporated in the PRC on 26 February 1990. The registered capital of Saifete is RMB5 million and the company is wholly owned by Cai Yong Deng (蔡拥灯). Cai Yong Deng (蔡拥灯) is also the legal representative of the company. Saifeite is principally engaged in the business of shoe and shoe sole production.*

In addition, Saifeite was a shareholder of Fujian Dixing from 25 July 2005 until 28 July 2008. As at the Latest Practicable Date, none of the Directors, promoters, substantial shareholders or key management of K-Star have any shareholding, interest or directorship in Saifeite.

The above transactions were interest free advances for the benefit of Fujian Dixing and therefore the issue of arms' length basis does not apply.

As at 15 September 2009, all the above non-trade advances were fully settled.

(ii) Provision of personal guarantees by our Executive Chairman and CEO, Ding Jianping for banking facilities extended to our Group:

Financial Institution	Facilities	Maximum Amount guaranteed	Tenure of loan
China Construction Bank, Jinjiang Branch	Short-term loan	RMB 32,000,000	3 September 2008 to 3 March 2010
China Construction Bank, Jinjiang Branch	Short-term loan	RMB 34,800,000	11 December 2009 to 11 June 2011

No consideration was paid to Ding Jianping for the provision of the aforesaid personal guarantees.

13.1.2 Recurrent Related Party Transactions

There are no existing and/or proposed transactions that are of revenue or trading in nature ("Recurrent Transactions") entered into between our Group and our related parties which are necessary for our day-to-day operations in respect. Our Directors confirm that such Recurrent Transactions, if any, will be carried out on an arm's length basis and on commercial terms which are not more favourable to the related parties than those generally available to third parties and which will not be detrimental to our minority shareholders.

We will make disclosures in our annual report of the aggregate value of transactions conducted based on the nature of the Recurrent Transactions made, names of the related parties involved and their relationship with our Group during the financial year and in the annual reports for the subsequent financial years.

13.1.3 Transactions entered into that are unusual in their nature of conditions

There are no unusual transactions in their nature or conditions, involving goods, services, tangible or intangible assets to which our Group was a party in respect of the past four (4) FYE 2006 to FYE 2009 up to the Latest Practicable Date.

13.1.4 Outstanding Loans and Guarantees

There are no outstanding loans (including guarantees of any nature) made by our Group to or for the benefit of our related parties in respect of the past four (4) FYE 2006 to FYE 2009.

13.1.5 Acquisition of assets

Save as disclosed in Sections 10.2 and 16.5 of this Prospectus, none of our Directors or our substantial shareholders has any interest, direct or indirect, in the promotion of, or in any material assets which have been, within the past four (4) FYE 2006 to FYE 2009 up to the Latest Practicable Date acquired or disposed of by or leased to our Group.

13.2 CONFLICT OF INTEREST

As at the Latest Practicable Date, none of our Directors or substantial shareholders has any interest, direct or indirect, directorships and/or shareholdings in other business and corporations operating on a similar trade as that of our Group which would give rise to a conflict of interest.

13.3 DECLARATION BY ADVISERS ON CONFLICT OF INTEREST

13.3.1 Declaration by PIVB

PIVB confirms that there is no conflict of interest in its capacity as the Adviser, Managing Underwriter, Underwriter and Sole Placement Agent of our Company in relation to the IPO.

13.3.2 Declaration by JF Apex Securities Berhad

JF Apex Securities Berhad confirms that there is no conflict of interest in its capacity as the Underwriter of our Company in relation to the IPO.

13.3.3 Declaration by Mercury Securities Sdn Bhd

Mercury Securities Sdn Bhd confirms that there is no conflict of interest in its capacity as the Underwriter of our Company in relation to the IPO.

13.3.4 Declaration by Teh & Lee

Teh & Lee confirms that there is no conflict of interest in its capacity as the legal adviser for our Company in relation to the IPO.

13.3.5 Declaration by KhattarWong

KhattarWong confirms that there is no conflict of interest in its capacity as the legal adviser for our Company on Singapore law in relation to the IPO.

13.3.6 Declaration by Grandall Legal Group (Guangzhou)

Grandall Legal Group (Guangzhou) confirms that there is no conflict of interest in its capacity as the legal adviser for our Company on PRC Law in relation to the IPO.

13.3.7 Declaration by SJ Grant Thornton

SJ Grant Thornton confirms that there is no conflict of interest in its capacity as the reporting accountant for our Company in relation to the IPO.

13.3.8 Declaration by Foo Kon Tan Grant Thornton

Foo Kon Tan Grant Thornton confirms that there is no conflict of interest in its capacity as the auditors for our Company in relation to the IPO.

13.3.9 Declaration by Converging Knowledge

Converging Knowledge confirms that there is no conflict of interest in its capacity as the independent market researcher for our Company in relation to the IPO.

13.3.10 Declaration by PFA Corporate Consultants Sdn Bhd

PFA Corporate Consultants Sdn Bhd confirms that there is no conflict of interest in its capacity as our company agent in Malaysia in relation to the IPO.

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converging knowledge

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Delivering intelligence to business

7 April 2010

The Board of Directors
K-Star Sports Limited
8 Cross Street
#11-00 PWC Building
Singapore 048424

Dear Sirs,

<u>Executive Summary of the Sports Footwear Market in China, 2009</u>

This Executive Summary of the Sports Footwear Market in China, 2009, is prepared by Converging Knowledge Pte Ltd ("Converging Knowledge") for inclusion in the Prospectus of K-Star Sports Limited ("K-Star Sports") in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of K-Star Sports on the Main Board of the Bursa Malaysia Securities Berhad.

The information in this Executive Summary was derived from our report "The Sports Footwear Market in China, 2009".

<u>Background</u>

The business of K-Star

K-Star Sports Limited ("K-Star"; "Dixing" brand), through its subsidiary, Fujian Dixing, is engaged in the business of designing, manufacturing and distribution of sports footwear. K-Star's key focus is on fashion casual sports footwear, in contrast to functional, athletic sports footwear.

K-Star's manufacturing base is in Jinjiang, the Sport Shoes Capital of China, and also home to established domestic sports footwear brands like Anta, X-Step and Peak.

K-Star's targeted market segments

There are more than 1,000 domestic sports footwear brands in China. Unlike most of its competitors which target a single market segment, K-Star competes in two market segments – mass market and low-end market segments.

Differentiation strategy of K-Star

K-Star also differentiates itself by engaging in a consumer-specific strategy, and not specific city-tier strategy. The company caters to secondary and university students, as well as the working class, which covers factory workers and farmers. K-Star's Dixing brand of sports footwear is distributed in cities of various tiers, reaching out to its targeted consumer segments in these cities.

K-Star's revenue

K-Star's posted revenue of RMB501,069,900 for the financial year ended 2008. This falls within the revenue range of RMB450 million to RMB650 million reported by listed sports footwear companies like Xingquan International and China Eratat. Sports footwear of Xingquan International and China Eratat has mass appeal.

K-Star has brand premium

K-Star's Dixing brand of sports footwear commands a brand premium. Like many established brands of sports footwear, K-Star engages a popular spokesperson – former Chinese Olympic diving champion, Tian Liang – to endorse its Dixing brand.

K-Star – affordable and branded sports footwear

K-Star's Dixing brand of sports footwear is priced from RMB100 to RMB200. This range is below that of mass marketer, China Eratat, and within the lower price range of Xingquan International sports footwear, which is another mass marketer. Notably, K-Star's sports footwear falls within the price range of OEMs and unbranded sports footwear ("OEMs/unbranded"). This indicates that the Dixing brand of sports footwear is priced within affordable means, and consumers have the purchasing power to buy sports footwear with brand premium like Dixing.

K-Star exports

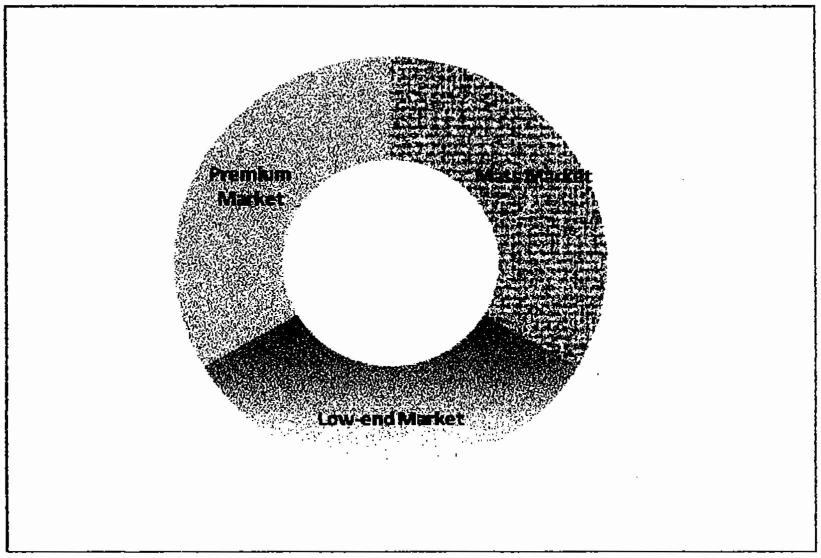
Unlike many listed sportswear players, which are more domestically driven, K-Star views the export market to be important. In 2008, 29.1% of its turnover was contributed by sales to the overseas market. K-Star intends to step up energies on exports.

Overview of Industry Structure

Structure based on Market Positioning

Market positioning refers to the process whereby marketers or marketing companies try to create an image of their products by determining their target market, pricing, brand and distribution model. There are three broad categories of market positioning - premium market, mass market and low-end.

Figure 1: The Three Marketing Positioning



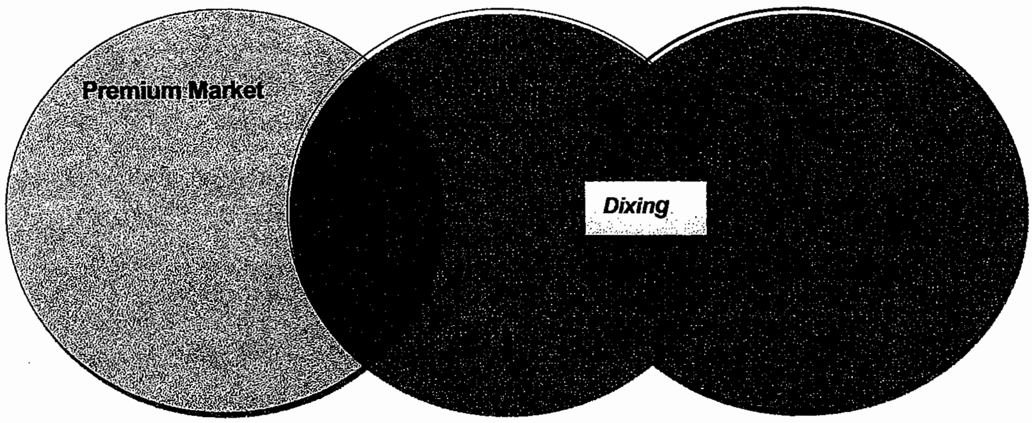
Note:

The purpose of this figure is to show the three broad market segments of the sportswear industry. Although the figure is divided into three equal segments, note that the division is not representative of the market share of each market segment.

Source: Converging Knowledge Pte Ltd

Most sports footwear manufacturers and marketers tend to focus on a single specific market segment. K-Star, on the other hand, applies a more consumer-specific strategy. It targets mainly secondary and university students, as well as the working class, which covers factory workers and farmers. These consumer groups usually fall within the mass market and low-end segments. As such, K-Star's Dixing brand caters to both the mass market and low-end segments.

Figure 2: Position of K-Star's Dixing brand within the Industry Structure



Source: Interviews, Converging Knowledge Pte Ltd

Structure based on City-Tiers

Chinese cities are classified by a "tier-system" – there are four tiers. City tiers are basically defined by population size, the average income earned, and average Gross Domestic Product ("GDP") per capita. We note that there is, however, no official income range that can precisely determine the tier-classification of each city in the country.

For example, first-tier cities would include Beijing and Shanghai, Guangzhou and Shenzhen, while second-tier cities would include cities such as Chongqing, Nanjing and Chengdu. Third-tier cities would cover cities such as Changzhou, Wuxi and Ningbo.

Consumers within the first tier cities are known to have higher spending propensities and demand branded goods. These cities are targets for sports footwear positioned as premium brands.

The distribution of mass market brands is usually concentrated in second-tier cities. Mass market brands accentuate their differentiation through product images and colours to appeal to their target consumers.

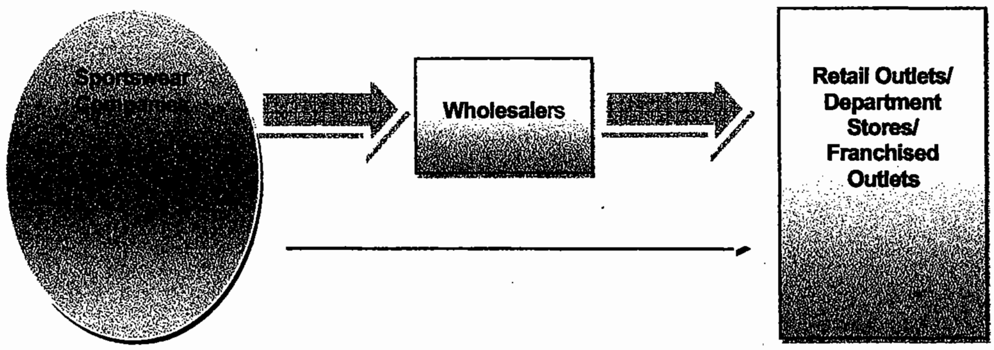
Third-tier and fourth-tier cities are typically the target for low-end brands. Low end brands refer to sportswear manufacturers who place little or no focus on brand-building and/ or produce for other established brands. They do not command a brand premium, and are thus, priced significantly lower than premium and mass market brands, catering to consumers with lower spending power.

Unlike other sports footwear manufacturers, K-Star does not have a specific city-tier strategy. Its targeted consumer groups – secondary and university students, as well as the working class, including factory workers and farmers – are widely dispersed all over China. As such, the Dixing brand of sports footwear is distributed in cities of various tiers.

Structure based on Distribution Channel

Under distribution channel, sportswear players decide how and where they want to distribute their sportswear, and who they want to appoint to distribute their products. A typical distribution model of sportswear is depicted as follows:

Figure 3: Distribution Model



Source: Compiled from various sources

In many instances, sportswear players in China appoint wholesalers, and are engaged in some form of direct retail. For example, Nike appoints wholesalers, and is also actively involved in setting up Nike retail outlets. Mid-low domestic players like Dixing and Xinjiyuan deal only with wholesalers to distribute their sportswear in the country.

Substitute Products and Services

Footwear and apparel are basic necessities. Hence, the threat of substitutes to this market is limited. However, there is a significant degree of substitution between segments. For example, sportswear is often regarded as a substitute for other forms of traditional footwear types.

Although sportswear is essentially produced and worn for a specific functional sport, substitute products for sportswear are aplenty due to the inadequate knowledge of the Chinese consumers on the different functionalities of sportswear.

According to a survey conducted by the China Consumer Association, only 14.6% of the consumers paid attention to the functionalities of sports shoes. 48.5% did not attach importance to the sports injury function of sports shoes, and 50.1% of consumers wear sports shoes intended for different types of sports.

Due to this lack of awareness of sportswear science, sports footwear is regarded by the Chinese consumers to be highly substitutable.

Government Legislation, policies, requirements and incentives within the industry in China

There is no specific legislation or policy governing the sportswear or footwear production industry in China. However, China's footwear industry is regarded as an important one by many provincial governments. Shoe enterprises in China get to enjoy incentives, as well as various support, given by the government.

Some of the incentives and support given to footwear manufacturers in China are detailed as follows:

Incentives

Financial Incentives

In Jinjiang, Fujian Province, new shoe enterprises are awarded the following one-time financial incentives upon fulfilment of the stated conditions:

Figure 4: Financial Incentives

Financial Incentive	Conditions
RMB100,000	Annual sales of more than RMB30 million, with annual tax exceeding RMB1 million.
RMB200,000	Annual sales of more than RMB50 million, with annual tax exceeding RMB2 million.
30% of the new annual tax value	Annual tax exceeding RMB2 million, with annual tax increase of more than 20%.

Source: Converging Knowledge Pte Ltd

Grants

New shoe companies will be given tax grants of 50%, 30% and 20% for the first three years.

Rent

Shoe companies that commit to a one-time rental of five or more stores, with a lease period of three years, will be given a one-time incentive of RMB50,000.

Others

Shoe enterprises stand to enjoy a number of other incentives such as corporate tax relief, and others such as value-added tax, enterprise income tax, personal income tax, property tax and urban land use tax. The enterprises also stand to enjoy exemption from paying management and registration fees to the Trade and Industry Department.

The first foot shape database in China

In 2007, the Sport Equipment Research and Development Base of China Institute of Sport Science ("CISS") was launched in Fujian Sidelong Sporting Goods Co., Ltd in Jinjiang. This represents the second cooperative effort between Jinjiang and the General Administration of Sport of China. This programme was initiated to collect data on foot shapes of all people nationwide so that experts on shoe mechanics can set up the first foot shape database in China. Such database will become the first "Chinese standard" for sports shoes.

Collaboration between the National Testing Centre of Footwear (Jinjiang) with RSscan & RS Lab

Departments within the Jinjiang Government have been vigorously promoting its national industry – the sportswear industry. For the first time, it is involved in the functional design of sports shoes, with the aim of promoting the upgrading of the footwear industry, technological innovation and upgrading the technological R&D level of sports shoes of Jinjiang and its surrounding areas.

The National Testing Centre of Footwear (Jinjiang), in collaboration with RSscan & RS Lab, launched a footwear biomechanics laboratory, as well as cooperative efforts in basic areas of sports shoe technical designs. RSscan & RS Lab will assist the National Testing of Footwear (Jinjiang) in achieving international standards of sports shoes biomechanics laboratory design, high-end sports shoes functional biomechanical testing standards evaluation methodology training, as well as basic functional designs of sports shoes.

Supply and Supply Dependencies

In general, the reliance and vulnerability of China's sportswear industry to imports has been decreasing throughout the years. This is largely because a big percentage of the world's shoes are produced in China. China has been touted as the world's largest shoe production base and exporting country. According to a media article, China's shoe industry consists of more than 30,000 enterprises, employs more than four million people in its workforce, and produces in excess of 10 billion pairs of shoes.

Labour

The footwear industry in China is said to be a labour-intensive one. Human capital is, therefore, a very important resource for this industry. Employers have been finding it increasingly difficult to attract workers from 'rural China'. This is because they face stiff competition at various levels. Government at provincial, municipal and even city levels of provinces compete to attract investments and workers to the area of their jurisdiction. They aim to improve the economic conditions of the area under their jurisdiction, other than creating jobs for their own residents. The increase in local job opportunities results in fewer Chinese leaving their hometown to look for work. China's new labour contract law in January 2008 has also made it more expensive for shoe manufacturers in China to hire and retain labourers.

Raw Materials

The cost of raw materials has been increasing. In 2008, the increasing costs incurred by shoe manufacturers have resulted in the shutting down and relocation of approximately 15% of shoe manufacturers. These shoe manufacturers are mainly small shoe making enterprises. However, sportswear manufacturers producing established brands are generally able to offset increases in raw material prices by raising the unit selling price of their sportswear products. Unlike those who manufacture sportswear of less known branding, or no branding, established sportswear manufacturers have the capacity to pass on increased operating costs to consumers through their brand premium.

Demand and Demand Dependencies

Demand for sports footwear in China has been growing year on year. In 2007, the market size of this market was estimated at USD4.93 billion. It is expected to reach an average of USD5.98 billion in 2008. China's sports footwear is anticipated to grow even further due to various factors that may impact consumption. They are as follows:

Focus on Healthy Lifestyle

The Chinese government has been educating and promoting the benefits of a healthy lifestyle to the Chinese population. It is reported to have invested approximately RMB800 million per annum into the sports industry in a bid to promote a healthy lifestyle. With rising medical expenses, as well as the recent various forms of viral epidemics such as SARS, the Chinese have became more health conscious, such that they have embraced physical activities.

Sporting Events

The recent Beijing Olympics 2008 has helped to strengthen China's economy. It was reported that 4% of China's GDP was derived from the Beijing Olympics 2008. With the success of the Beijing Olympics 2008, we can expect further promotion of the sports culture, increase in the participation rate in sports, and the demand for sportswear products with the hosting of future international sports events by China.

Events that will be hosted by China include the 16th Asian Games in Guangzhou in 2010, and the World University Games in 2011.

Educated/ Affluent Customers

With the increase in their purchasing power, Chinese consumers are better able to afford to purchase sportswear. Sports shoes are no longer functional, but doubling up as fashionable general leisurewear. Chinese consumers are now more fashion conscious, where design of merchandise has become a major factor in their choice.

Consumers today are becoming increasingly aware of the specific functionality of sporting goods, particularly shoes. Consumers prefer to wear the 'right type of sports shoes' for the intended sports. For instance, when playing basketball, consumers wear basketball shoes instead of wearing any other type of sports shoes.

Consumers are becoming more demanding in their choice of purchase, with the rise of their knowledge and understanding of sportswear. Today, consumers in general pay more attention to product quality, technology content, and factors in the after-sales service. Consumers will choose goods that suit their practical needs and represent value for money.

Population

China's population of more than 1.3 billion presents a huge domestic consumer market for sports footwear manufacturers. The country's consumer market is expected to rise even further, albeit at slower growth rates to 1.42 billion by 2013.

Potential of the rural market

Although the average disposable incomes of rural residents are lower than urban residents, the rural market has been an increasing influence on China's overall consumption.

The rural population constitutes in excess of 50% of China's total population, indicating a huge rural consumer base of more than 700 million. Steady income increases, coupled with tax reliefs and agricultural policies, have increased the purchasing power of the rural residents.

Farmers-turned workers and rural workers are among the targeted consumer groups for low end sports footwear. The lure of farmers and rural labourers to the cities is expected to continue along with China's economic development drive, as well as the shortage of labour. The number of farmers-turned-workers and rural labourers is expected to reach 300 million by 2010.

Sizeable Tertiary Student Market

The tertiary student segment is also one of the targets of many sports footwear manufacturers.

The size of China's student population in the secondary and higher education category grew approximately by 2.6% from 2004 to 2007. Although the percentage growth appears to be small, note that the total tertiary student population reached almost as high as 109 million in 2007. The numbers indicate that the tertiary student segment is sizeable in China.

The number of higher education students in China is expected to rise even further. It is reported that there will be 6.1 million graduates in 2009, which is almost six times of the number in 2000. The number of university graduates in the country is further expected to rise to approximately 7 million in 2010, and 7.6 million in 2011.

Competition

Nature of Competition

Competition in the Chinese sportswear industry may come from the following:

Pricing

Sports footwear players ascertain their targeted consumer groups before determining their pricing strategies. K-Star targets mainly secondary and university students, and the working class, which includes farmers and factory workers. These consumer segments usually have medium-to-low spending propensities, and thus, K-Star's sports footwear is priced lower than foreign brand names, as well as most mass market brands.

Distribution Channel

The type of distribution channel used by sports footwear manufacturers, as well as the distributors appointed, serve to determine the extensiveness and effectiveness of the outreach. K-Star deals directly with wholesalers and does not engage in direct point of sales. The company selects wholesalers that have the network to reach out to cities of various tiers.

Advertising/Endorsement

Advertising/Endorsement has become a very important differentiating strategy as it helps consumers distinguish one sports footwear brand from another. It also aids in building brand awareness, and ultimately, brand premium. K-Star has appointed former Olympic diving champion, Tian Liang, as its brand spokesperson.

Factors of Competition

Technology and Product Quality

The technological capability of sportswear players is one of the key competitive factors. Sportswear companies with technological expertise would be able to achieve the following:

- Produce a wide range of sportswear, such as basic casual wear down to high performance ones;
- Increase chances of being the market leader as its products are at the technological forefront; and
- Manufacture better quality sportswear.

Chinese consumers have become increasingly more knowledgeable and conscious of the quality of their purchase. Coupled with ever-rising affluence, they favour better quality sportswear, and are better positioned to invest in them.

Advertising/Endorsement

Traditionally, sportswear players appoint famous celebrities to create brand prominence in the marketplace. However, the endorsement market has become fiercely competitive as sportswear companies vie to attract their desired celebrity to endorse their brands.

Material Costs

Sportswear players that are directly involved in research & development, and/ or the manufacturing process, generally possess better control in the material costs, as well as the quality of the finished output. K-Star is said to enjoy volume discounts for raw materials as it has a comparatively larger shoe-making capacity.

Competitive Intensity

Competition is intense in China's sports footwear industry due to the number of players in the market. There are more than 1,000 local sportswear brands in China. Most of these sportswear brands originate from Jinjiang and Putian.

Industry Players

Some of the various domestic sportswear brands in China's market are listed as follows:

Figure 5: China's domestic brands for sports shoes

Brand	Company
361°	361° (Fujian) Sports Goods Co
Addnice	Xingquan International Sports Holdings Limited
AILE	AILE Sports Goods
Ailibao	Ailibao Co Ltd
Anchao	Quanzhou Anchao Shoes Industry Co Ltd
Anta	Anta Group (Fujian)
Athletic	Quanzhou Athletic Shoes & Garment
Bake	Bake Sports Co Ltd
Bangdeng	Fujian Nananshi Bangdeng Footwear Co. Ltd
Deerhui	Fujian Jinjiang Deerhui Footwear Co Ltd
Dixing	Dixing Shoe Plastics Co. Ltd
Double Star	Double Star Group
Eratat	China Eratat Sports Fashion Limited
Erke	Fujian Hongxing Erke Sports Group
Gold Apple	Aiqi (Fujian) Footwear Co. Ltd
Guirenniao	Guirenniao (Fujian) Shoes & Plastics Co. Ltd
Leisu	Guohui Footwear Co. Ltd
Li-Ning/Z-Do	Beijing Li Ning Sports Goods
Meike	Fujian Meike Sports Leisure Co. Ltd
Mingle	Mingle (China) Co. Ltd
Peak	Fujian Peak Group Co., Ltd
Qiaodan	Qiaodan (China) Co., Ltd
Xdlong	Xdlong International Company Limited
Xinjiyuan	Fujian Xinjiyuan Sports Co Ltd
Xtep	Quanshou Sanxing Sports Goods
Yeli	China Sports International Limited

Note:
The list is not exhaustive

Source: Compiled from various industry sources

China's sportswear market has over 1,000 different local and foreign brands. The majority of the domestic brands cater to the mass market segment.

Figure 6: Price positioning of domestic sports brands in China

Domestic Brands	Retail Price Range (RMB)	
	Minimum	Maximum
Addnice	180	500
Anchao	120	200
Anta	240	400
Dixing	100	200
Eratat	250	350
Erke	300	500
Li Ning	200	1,000
Peak	200	400
Xtep	200	400
Yeli	170	260
OEMs/ Unbranded	50	180

Price range above includes running shoes and basketball shoes. Please note that prices are true as at December 2008

Source: Various interview sources

In terms of price positioning, domestic market leader, Li Ning, is priced higher than the rest of the domestic brands. This is because Li Ning has always modelled after Nike in terms of market positioning and marketing strategies. In addition, Li Ning shoes are priced higher to cover the high operating costs in first-tier cities. In recent years, Li Ning has shifted its focus to driving sales in second and third-tier cities. Li Ning's wide price range could be attributed to the fact that second and third-tier cities wield lower purchasing power than first-tier cities.

Players target the mid-price range, from RMB200 to RMB500. The more established mid-tier players, Addnice, Anta and Eratat, focus on second and third-tier cities.

Interviews with domestic sportswear companies in this mid-range pricing revealed that the prices of sportswear have been adjusted upwards recently in lieu of improved brand image. Dixing's pricing is amongst the lowest of the brands. It has positioned itself in the price range similar to that of OEMS or unbranded shoes and yet, distinguished itself from this segment with its brand

Low price positioning companies include the likes of OEMS (such as YELI) and unbranded sportswear. Industry sources revealed that one could purchase a pair of sports shoes without any form of branding for as low as RMB50.

Industry sources also informed us that price competition is keen in China; the average selling price for a pair of sports shoes is RMB200 and below. The sales volume of sports shoes selling within this price range is high due to the current consumer spending level in China.

Listco Comparables

The figure below shows the revenue of selected listed sports footwear companies in China:

Figure 7: Revenue of Selected Listed Sports Footwear Companies in China as at 2008

Company	Exchange	2008 (RMB '000)	Product Types		
			Footwear	Apparel & Accessories	Export
Yue Yuen*	HKG	33,566,017.8	X	X	X
Li Ning	HKG	6,690,073.0	X	X	X
Anta Sports Products	HKG	4,626,782.0	X	X	X
Qingdao DoubleStar	SHE	4,339,856.0	X	-	-
China Hong Xing	SIN	2,889,200.0	X	X	X
Xstep International	HKG	2,867,200.0	X	X	-
China Sports International	SIN	1,859,700.0	X	X	-
Xingquan International	KUL	638,810.0	X	X	-
XiDeLang Holdings	KUL	573,939.0	X	X	X
K-Star Sports	-	501,069.0	X	-	X
China Eratat	SIN	452,990.0	X	X	-
Multi Sports Holdings	KUL	385,310.0	X	-	-

*Converted based on exchange rate of USD1:RMB6,8225 as at 31 December 2008
Note: Companies are deemed to be engaged in Export activities when they have physical presence overseas and when products are exported overseas by an appointed overseas distributor.

Source: Compiled from Companies' Annual Reports, Companies' Websites, Interviews, Converging Knowledge Pte Ltd

We note that currently, listed sportswear players are more domestically driven and do not focus as much on exporting their sportswear overseas. Some instances of exceptions are K-Star and Yue Yuen. More than half of Yue Yuen's turnover in 2008 was contributed via the US and European markets. 29.1% of K-Star Sports' turnover in 2008 was made up from the overseas market.

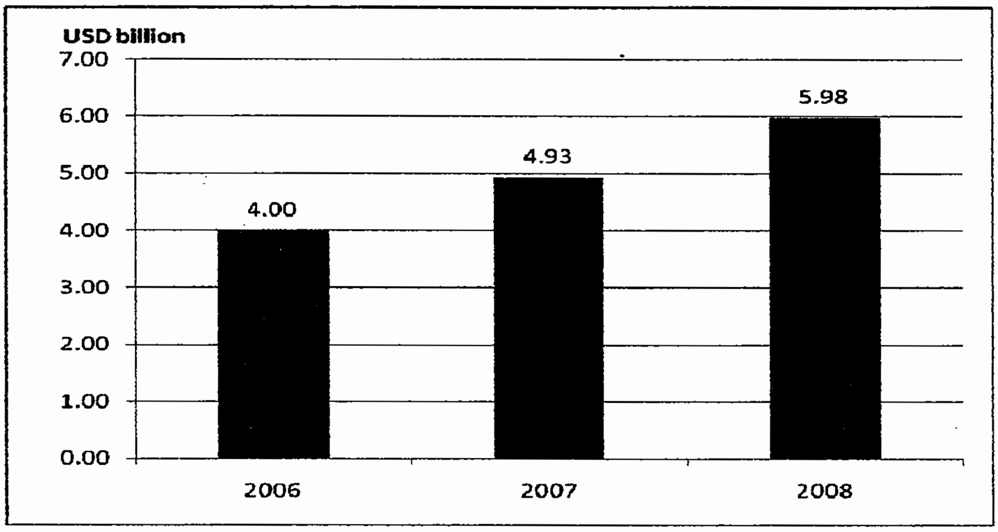
14. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

We note that Yue Yuen is heavily export-geared, unlike the rest of the listed sportswear players, and is focused on OEM manufacturing for international brands of sportswear.

Market Size

The size of China's sportswear industry has been growing at a CAGR of 22.27% for the period from 2006 to 2008. In 2006, market size registered at USD4 billion. This is expected to reach nearly USD6 billion in 2008. Please see figure below.

Figure 8: Past Performance of China's Sportswear Industry



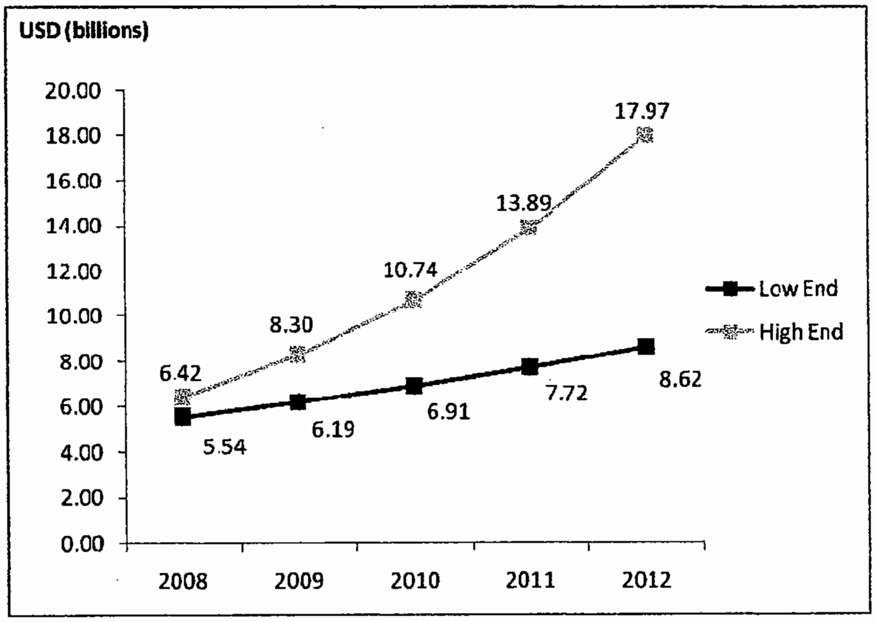
Source: Converging Knowledge Pte Ltd

Prospects and Outlook of Industry

China's sports footwear industry continues to be positive in line with its growing population and consumer base, as well as rising disposable incomes, amongst others.

The annual average growth rate of China's sportswear industry is ranging from 11.7% to 15.8% for the period from 2008 to 2012. The market size of the sportswear market is expected to rise to between USD8.62 billion and USD17.97 billion by 2012.

Figure 9: Market Size Forecasts for 2008 to 2012 of China's Sportswear Industry



Source: Converging Knowledge Pte Ltd

Converging Knowledge Pte Ltd has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report represents a true and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours sincerely,

EDDY TAN KONG YIAM
Director
Converging Knowledge Pte Ltd

K-STAR SPORTS LIMITED

Registered Branch Office in Malaysia

K-Star Sports Limited
Level 18, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

30 APR 2010

The Shareholders
K-Star Sports Limited

On behalf of the Board of Directors of K-Star Sports Limited ("**K-Star**"), I report after due enquiry, that during the period from 31 December 2009 (being the date to which the last audited financial statements of K-Star and its subsidiary company ("Group") have been made up) to the date of this letter (being a date not earlier than fourteen (14) days before the date of issue of this Prospectus) that:

(a) the business of the Group, in the opinion of the Directors, has been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of the Group, any circumstance which has adversely affected the trading or the value of the assets of the Group;

(c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in this Prospectus, there are no other contingent liabilities by reason of any guarantees or indemnities given by the Group;

(e) since the last audited financial statements of the Group, there has been no default on any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowing (this applies to the Group), which the Directors are aware of; and

(f) save as disclose in this Prospectus, there has been, since the last audited financial statements of the Group, no material changes in the published reserves or any unusual factor affecting the profits of the Group.

Yours faithfully
for and on behalf of the Board of Directors of
K-STAR SPORTS LIMITED

....
Ding Jianping
Executive Chairman and Chief Executive Officer

Singapore Registered Office
8 Cross Street, #11-00 PWC Building, Singapore 048424

16. ADDITIONAL INFORMATION

16.1 SHARE CAPITAL

(i) Save as disclosed in this Prospectus, no securities will be allotted or issued on the basis of this Prospectus later than twelve (12) months after the date of the issue of this Prospectus.

(ii) We have no founder, management or deferred shares in our Company. As at the date of this Prospectus, we have only one (1) class of shares in our Company, namely ordinary shares, all of which rank equally with one another.

(iii) Save as disclosed in this Prospectus, none of the capital of our Company or our subsidiary has been issued or is proposed to be issued as partly or fully paid-up in cash or otherwise than in cash within the two (2) years immediately preceding the date of this Prospectus.

(iv) None of the capital of our Company or our subsidiary has been put under any option or has been agreed conditionally or unconditionally to be out under any option.

(v) There is no scheme involving our employees in the capital of our Company or our subsidiary.

(vi) Save as disclosed in this Prospectus and as at the date of this Prospectus, neither our Company nor our subsidiary have any outstanding convertible debt securities.

16.2 EXTRACT OF OUR ARTICLES OF ASSOCIATION

The following provisions are a summary or extract from our Articles of Association and are qualified in its entirety by the provisions of by applicable law and the terms used are as defined therein:

(i) Transfer of securities

Article 36

All transfers of the legal title in fully paid shares may be effected by the registered holders thereof by transfer in writing in the form for the time being approved by any Designated Stock Exchange upon which shares in the Company may be listed or in any other form acceptable to the Directors. The instrument of transfer shall be left at the Office accompanied by the certificate of the shares to be transferred and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain the registered holder of the shares concerned until the name of the transferee is entered in the Register in respect thereof. The instrument of transfer of any share shall be signed by or on behalf of both the transferor and the transferee and be witnessed, Provided that for so long as the shares are listed on the Designated Stock Exchange, the transfer of any Deposited Securities or class of Deposited Securities of the Company shall be made by way of book entry by the Depository in accordance with the Rules of the Depository, and the Company shall be precluded from effecting any transfer of listed securities other than through the Depository in accordance with the Rules of the Depository. Instruments of transfer of any Deposited Security may be in the form of electronic records of the Depository relating to such transfers.

Article 37

Subject to the Rules of the Depository, the Malaysian Companies Act and the Listing Requirements, the Register of Members may be closed at such times and for such period as the Directors may from time to time determine, Provided always that such Register shall not be closed for more than thirty (30) days in any Year, Provided always that the Company shall give at least ten (10) Market Days' prior notice of such closure as may be required to the Designated Stock Exchange upon which shares in the Company may be listed, stating the period and purpose or purposes for which the closure is made.

Article 38

(A) *There shall be no restriction on the transfer of fully paid-up shares (except where required by law or the listing rules of, or bye-laws and rules, governing, any Designated Stock Exchange upon which the shares in the Company may be listed) but the Directors may, in their sole discretion, decline to register any transfer of shares or allow the entry of or against a person's name in the Record of Depositors in respect of shares transferred or to be transferred upon which the Company has a lien and in the case of shares not fully paid-up may refuse to register a transfer to a transferee of whom they do not approve, Provided always that in the event of the Directors refusing to register a transfer of shares, they shall within ten (10) Market Days beginning with the date on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.*

(B) *The Directors may in their sole discretion refuse to register any instrument of transfer of shares unless:*

(a) *such fee not exceeding S$2 as the Directors may from time to time require, is paid to the Company in respect thereof;*

(b) *the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid;*

(c) *the instrument of transfer is deposited at the Office or at such other place (if any) as the Directors may appoint accompanied by a certificate of payment of stamp duty (if any), the certificates of the shares to which the transfer relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do; and*

(d) *instrument of transfer is in respect of only one (1) class of shares as shares of different classes shall not be comprised in the same instrument of transfer.*

(C) *Further to Article 38(A) and (B) and subject to the provisions of the Statutes, the Central Depository Act and the Rules of the Depository, the Depository may refuse to register any transfer of Deposited Security that does not comply with the Central Depository Act and the Rules of the Depository.*

Article 39

If the Directors refuse to register a transfer of any shares, they shall within ten (10) Market Days after the date on which the transfer was lodged with the Company send to the transferor and the transferee notice of the refusal as required by the Statutes.

Article 40

All instruments of transfer which are registered may be retained by the Company, but any instrument of transfer which the Directors may refuse to register shall (except in any case of fraud) be returned to the party presenting the same.

Article 41

(A) There shall be paid to the Company in respect of the registration of any instrument of transfer or probate or letters of administration or certificate of marriage or death or stop notice or power of attorney or other document relating to or affecting the title to any shares or otherwise for making any entry in the Register of Members affecting the title to any shares such fee not exceeding S$2 as the Directors may from time to time require or prescribe.

(B) Neither the Company nor the Directors nor any of its officers shall incur any liability for registering or acting upon a transfer of shares apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or the Directors or other officers be legally in-operative or insufficient to pass the property in the shares proposed or professed to be transferred, and although the transfer may, as between the transferor and transferee, be liable to be set aside, and notwithstanding that the Company may have notice that such instrument of transfer was signed or executed and delivered by the transferor in blank as to the name of the transferee of the particulars of the shares transferred, or otherwise in defective manner. And in every such case, the person registered as transferee, his executors, administrators and assigns alone shall be entitled to be recognized as the holder of such shares and the previous holder shall, so far as the Company is concerned, be deemed to have transferred his whole title thereto.

Article 42

The Company shall be entitled to destroy all instruments of transfer which have been registered at any time after the expiration of seven (7) years from the date of registration thereof and all dividend mandates and notifications of change of address at any time after the expiration of seven (7) years from the date of recording thereof and all share certificates which have been cancelled at any time after the expiration of seven (7) years from the date of the cancellation thereof and it shall conclusively be presumed in favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective certificate duty and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company; Provided always that:

(a) the provisions aforesaid shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant;

(b) nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this Article; and

(c) references herein to the destruction of any document include references to the disposal thereof in any manner.

(ii) Remuneration of Directors

Article 79

The ordinary remuneration of the Directors shall from time to time be determined by an ordinary resolution of the Company, shall not be increased except pursuant to an ordinary resolution passed at a General Meeting where notice of the proposed increase shall have been given in the notice convening the General Meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, or failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office.

Article 80

(A) Any Director who holds any executive office, or who serves on any committee of the Directors, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise as the Directors may determine.

(B) The remuneration (including any remuneration under Article 80(A) above) in the case of a Director other than an Executive Director shall be payable by a fixed sum and shall not at any time be by commission on or percentage of the profits or turnover, and no Director whether an Executive Director or otherwise shall be remunerated by a commission on or a percentage of turnover. Any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

(C) No payment shall be made to any Directors by way of compensation for loss of office or as consideration for or in consideration with his retirement from office unless particulars with respect to the proposed payment (including the amount thereof) have been disclosed to the Members and the proposal has been approved by the Company in General Meeting.

Article 81

The Directors may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Directors or of any committee of the Directors or General Meetings or otherwise in or about the business of the Company.

Article 82

The Directors shall have power to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director for the time being holding any executive office and for the purpose of providing any such pensions or other benefits to contribute to any scheme or fund or to pay premiums.

Article 88

The remuneration of a Chief Executive Officer (or person holding an equivalent position) shall from time to time be fixed by the Directors and may subject to these Articles be by way of salary or commission or participation in profits or by any or all these modes but he shall not under any circumstances be remunerated by a commission on or a percentage of turnover.

(iii) Voting and Borrowing Powers of Directors

Article 101

Questions arising at any meeting of the Directors shall be determined by a majority of votes. Where two (2) Directors form a quorum, the Chairman of a meeting at which only such a quorum is present or at which only two (2) Directors are competent to vote in the question at issue, shall not have a casting vote.

Article 102

(A) Subject to the Listing Requirements, a Director shall not vote in respect of any contract or proposed contract or arrangement or any other proposal whatsoever in which he has any personal material interest, whether directly or indirectly. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.This prohibition shall not apply to:-

(a) any arrangement for giving any Director any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company; or

(b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of security; or

(B) Subject to Article 103(A) above, a Director notwithstanding his interest may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged.

Article 110

The business and affairs of the Company shall be managed by or under the direction of the Directors. The Directors may exercise all such powers of the Company as are not by the Statutes or by these Articles required to be exercised by the Company in General Meeting. The Directors shall not carry into effect any proposals for selling or disposing of the whole or substantially the whole of the Company's undertaking unless such proposals have been approved by the Company in General Meeting. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the Directors by any other Article. A Director who is not a Member of the Company may nonetheless be entitled to attend and speak at General Meetings.

Article 109

Subject as hereinafter provided and to the provisions of the Statues, the Directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party for the purposes of the Company, its wholly owned subsidiaries or any of its associated or related corporations PROVIDED ALWAYS that nothing contained in these Articles shall authorize the Directors to borrow any money or mortgage or charge any of the Company's or its subsidiaries' undertaking, property or any uncalled capital or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

(iv) Changes in Capital or Variation of Class Rights

Article 6

Whenever the share capital of the Company is divided into different classes variation of rights of shares, subject to the provisions of the Statutes, preference capital, other than redeemable preference capital, may be repaid and the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-quarters (3/4) of the issued shared of the class or with the sanction of a special resolution passed at a separate General Meeting of the holders of the shares of the class (but not otherwise) and may so be repaid, varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate General Meeting all the provisions of these Articles relating to General Meetings of the Company and to proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be not less than two (2) persons personally present and holding or representing by proxy at least one-third (1/3) of the issued shares of the class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those persons who are present shall be a quorum) and that any holder of shared of the class present in person or by proxy may demand a poll and every such holder shall on a poll have one (1) vote for every share of the class held by him. Provided always that where the necessary majority for such special resolution is not obtained at such General Meeting, consent in writing if obtained from the holders of three quarters (3/4) of the issued shares of the class concerned within two (2) months of such General Meeting shall be as valid and effectual as a special resolution carried at such General Meeting. The Directors shall comply with the provisions of Section 186 of the Act as to forwarding a copy of any such consent or resolution to the Registrar of Companies. The foregoing provisions of this Article shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the special rights whereof are to be varied.

Article 7

The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects pari passu therewith but in no respect in priority thereto.

Article 7A

(A) The Company in General Meeting may from time to time by Ordinary Resolution, whether all the shares for the time being authorized shall have been issued or all the shares for the time being issued have been fully paid up or not, increase its capital by the creation and issue of new shares, such aggregate increase as the Company by the resolution authorizing such increase shall direct, and if no direction be given, as the Directors shall determine and in particular, but without prejudice to the rights attached to any preference shares that may have been issued, such new shares may be issued with a preferential or qualified right to dividends, and in the distribution of the assets of the Company and with a special or restricted or without any right of voting.

(B) Subject to any directions that may be given in accordance with the powers contained in the Memorandum of Association or these Articles, any capital raised by creation of new shares shall be considered as part of the original capital and all new shares shall be subject to the same provisions with reference to the payment of calls, transfer, transmission, forfeiture, lien and otherwise as if it had been part of the original capital.

Article 8

(A) *Subject to any direction to the contrary that may be given by the Company in General Meeting or except as permitted under the listing rules of the Designated Stock Exchange, all new shares or other convertible securities shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of General Meetings in proportion, as far as the circumstances admit, to the number of the existing shares or securities to which they are entitled. The offer shall be made by notice specifying the number of shares or securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares or securities which (by reason of the ratio which the new shares bear to shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered under this Article 8(A).*

(B) *Notwithstanding Article 8(A), the Company may by ordinary resolution in General Meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the ordinary resolution, to:*

(a) *(i)* *issue shares in the capital of the Company ("shares") whether by way of rights, bonus or otherwise; and/or*

(ii) *make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares; and*

(b) *(notwithstanding the authority conferred by the ordinary resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the ordinary resolution was in force,*

provided that

(1) *the aggregate number of shares to be issued pursuant to the ordinary resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to the ordinary resolution) shall be subject to such limits and manner of calculation as may be prescribed by the Designated Stock Exchange;*

(2) *in exercising the authority conferred by the ordinary resolution, the Company shall comply with the provisions of the Listing Requirements for the time being in force (unless such compliance is waived by the Designated Stock Exchange), the Malaysian Companies Act, the Malaysian Securities Laws and these Articles; and*

(3) *(unless revoked or varied by the Company in General Meeting) the authority conferred by the ordinary resolution shall not continue in force beyond the conclusion of the Annual General Meeting of the Company next following the passing of the ordinary resolution, or the date by which such Annual General Meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Statutes (whichever is the earliest).*

(C) *Except so far as otherwise provided by the conditions of issue or by these New shares Articles, all new shares shall be subject to the provisions of the Statutes and of these Articles with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture and otherwise and where applicable shall in compliance with the Listing Requirements and Malaysian Securities Laws.*

Article 9

The Company may by ordinary resolution:

(a) *consolidate and divide all or any of its shares into shares of larger amounts than its existing shares;*

(b) *cancel the number of shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled;*

(c) *sub-divide its shares, or any of them (subject, nevertheless, to the provisions of the Statutes) into shares of smaller amount than is fixed by the memorandum and the Statutes, so, however, then in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one (1) or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares; and*

(d) *subject to the provisions of the Statutes, convert any class of shares into any other class of shares in compliance with the Listing Requirements, Malaysian Companies Act or Malaysian Securities Law.*

Article 10

(A) *The Company may by special resolution reduce its share capital or any undistributable reserve in any manner as may be authorised by the Act and any other applicable law. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to these Articles, the number of issued shares of the Company shall be diminished by the number of the shares so cancelled, and, where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of share capital of the Company shall be reduced accordingly.*

(B) *The Company may, subject to and in accordance with the Act and in compliance with the Malaysian Companies Act and Malaysian Securities Laws, purchase or otherwise acquire its issued shares on such terms and in such manner as the Company may from time to time think fit. If required by the Act, any share which is so purchased or acquired by the Company shall, unless held in treasury in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with, the Act and in compliance with the Malaysian Companies Act, Listing Requirements and Malaysian Securities Laws. For so long as the shares of the Company are listed on the Designated Stock Exchange, the Company shall make such announcements to the Designated Stock Exchange of any purchase or acquisition by the Company of its own shares as may be required by the Listing Requirements.*

(C) *No part of the funds of the Company shall be employed in the purchase of or in loans upon the security of shares in the Company or its holding company, if any, and the Company shall not, except as authorized by Section 67 of the Malaysian Companies Act, give any financial assistance for the purpose or in connection with any purchase of, or subscription for, shares in the Company or in its holding company nor, except as authorized by Sections 133 and 133A of the Malaysian Companies Act, make, guarantee or provide any security in connection with a loan to any Director of the Company or its holding company or to any person connected with a director of the Company or its holding company.*

16.3 DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND KEY MANAGEMENT

(i) The names, addresses and occupations of our Directors are set out in Section 1 of this Prospectus.

(ii) A Director is not required to hold any qualification share in our Company unless otherwise so fixed by our Company at a general meeting.

(iii) Save as disclosed in Section 11.1.5 of this Prospectus, no amount or benefits have been paid or intended to be paid remuneration or given to any of our Directors or Substantial Shareholders within two (2) years preceding the date of this Prospectus, except for remuneration received in the course of employment and directors' fees.

(iv) Save as disclosed in Section 11.1.4 of this Prospectus, there are no existing or proposed service contracts between our Company or subsidiary company, and our Directors or key management.

(v) Save as disclosed in this Prospectus, none of our Directors are aware of any material information including trading factors or risks which are unlikely to be known or anticipated by the general public and which could materially affect our Group's profits.

(vi) Save as disclosed in Section 13 of this Prospectus, none of our Directors have any interest in any contract or arrangement subsisting at the date of this Prospectus in which our Directors or substantial shareholders are interested and which is significant in relation to the business of our Group as a whole.

(vii) Save as disclosed in Section 7.8, Pages F-6 and F-72 in Appendix F of this Prospectus and for dividends paid or payable to the Company's substantial shareholders as the shareholders of the Company, no other amounts or benefits has been paid or intended to be paid to our substantial shareholders within the two (2) years preceding the date of this Prospectus.

(viii) Save as disclosed in Sections 13.1.5 and 16.5 of this Prospectus, none of our Directors or our substantial shareholders has any interest, direct or indirect, in the promotion of, or in any material assets which have been, within the past four (4) FYE 2006 to FYE 2009 up to the Latest Practicable Date of this Prospectus, acquired or disposed of by leased to our Company or proposed to be acquired, disposed of by or leased to our Company.

(ix) Save as disclosed in Section 11 of this Prospectus, none of our Directors and Substantial Shareholders has any direct or indirect interest in our Company, before and after the IPO.

(x) Save as disclosed in Section 13.2 of this Prospectus, none of our Directors or substantial shareholders has any interest, direct or indirect, directorships and/ or shareholdings in other business and corporations carrying on a similar trade as that of our Company which would give rise to a situation of conflict of interest.

16.4 MATERIAL LITIGATION/ ARBITRATION

As at the Latest Practicable Date, there are no legal or arbitration proceedings, including those which are pending or known to be contemplated, which may have or have had during the last 12 months prior to the date of lodgement of this Prospectus, a material effect on our Group's financial position or profitability.

16.5 MATERIAL CONTRACTS

Save as disclosed below, the following contracts, not being contracts entered into in the ordinary course of business of our Group, have been entered into by our Company and our subsidiary within the two years preceding the date of lodgement of this Prospectus and are or may be material:

(a) Interior Decoration Contract dated 15 November 2007 and supplementary agreement dated 29 December 2008 between Quanzhou Huayi Decoration Co., Ltd. (泉州市华亿装璜有限公司) and Fujian Dixing in relation to the interior design and decoration of the office building located at Factory A for an initial consideration of RMB9,600,000 which was increased to RMB14,000,000. The interior decoration was completed in early October 2009.

(b) Construction Contract dated 5 January 2009 between Wuyi Chunping Construction Projection Co., Ltd. (武夷春屏建筑工程公司) (**"Wuyi"**) and Fujian Dixing for the construction of an employees' dormitory at Factory B for a consideration of RMB3,840,000. The construction was completed on 15 June 2009.

(c) Supplementary Investment Agreement dated 30 August 2009 between Fujian Dixing, Ding Jianping, Fortune United Investment Limited, Ng Der Sian, Chan Kai Fly and our Company, under which our Company assumed the obligations of Fujian Dixing under an Investment Agreement dated 26 October 2008 between Fujian Dixing, Ding Jianping, Fortune United Investment Limited and Ng Der Sian, where Fortune United Investment Limited and Ng Der Sian had agreed to make a loan of SGD1.5 million to Fujian Dixing to facilitate the latter's payment of fees for the proposed IPO exercise, in return for which Fujian Dixing and Ding Jianping had agreed to procure the Company to issue to Fortune United Investment Limited and Ng Der Sian 5% of our shares after IPO.

(d) Right of First Refusal Agreement dated 9 September 2009 and the Supplemental Right of First Refusal Agreement dated 26 November 2009 between Chan Kai-Fly, Ding Jianping and our Company, under which Chan Kai-Fly agreed, *inter alia*, (1) to give to Ding Jianping a right of first refusal to purchase the former's shares in our Company at 10% discount to the weighted average closing prices of our Shares for the past 3 months prior to the date of the placement agreement to be signed between Chan Kai Fly and Ding Jianping, (2) not to sell, realize, transfer or otherwise dispose of any of his shares in our Company for a period of six (6) months from the date of the Company's admission to the Official List of the Bursa Malaysia Securities Berhad or such other longer period as may be required by the Bursa Malaysia Securities Berhad or the Company.

(e) Equity Transfer Agreement dated 10 August 2009 between our Company and Wing Shun and the Restructuring Agreement dated 9 September 2009 between our Company, Wing Shun and K-Star International, pursuant to which we acquired the entire equity interest in Fujian Dixing for an aggregate consideration of SGD39,670,573 satisfied by the issuance of 60,158,999 Shares to K-Star International;

(f) Land Transfer Agreement, which is subject to the approval from the local land authorities, dated 15 September 2009 between Fujian Dixing and Jiangtou Huizu Village Chendai Town Jinjiang City Villagers Committee (晋江市陈埭镇江头回族村民委员会) for the acquisition of a piece of land located in Jiangtou Industrial Zone, Chendai Town, Jinjiang City measuring approximately 40,000 sq m for an aggregate cash consideration of RMB24,000,000. Under the agreement, Fujian Dixing shall pay 30% of the purchase price by 15 January 2010 and the remaining balance within one month before the land is handed over to Fujian Dixing. Fujian Dixing has paid RMB7,200,000 as at the Latest Practicable Date.

(g) Convertible Loan Agreement dated 18 September 2009 between K-Star International Limited, our Company and Golden Eagle Resources Sdn Bhd (now known as A1 Capital Sdn Bhd) ("Golden Eagle") under which Golden Eagle agreed to invest RM4.95 million in our Company, which amount shall be convertible to the higher of 4,400,000 shares and 4.955% of our enlarged share capital after the IPO.

(h) Convertible Loan Agreement dated 18 September 2009 between K-Star International Limited, our Company and Ng Chin Nam ("NCN") under which NCN agreed to invest RM1.10 million in our Company, which amount shall be convertible to the higher of 80,000 shares and 0.09% of our enlarged share capital after the IPO.

(i) Convertible Loan Agreement dated 18 September 2009 between K-Star International Limited, our Company and Skylitech Resources Sdn Bhd ("Skylitech") under which Skylitech agreed to invest RM4.95 million in our Company, which amount shall be convertible to the higher of 4,400,000 shares and 4.955% of our enlarged share capital after the IPO.

(j) Underwriting Agreement dated 15 April 2010.

16.6 GENERAL INFORMATION

(i) The nature of our business is described in Section 6 of this Prospectus. Other than mentioned in Section 6 of this Prospectus, there is no corporation which is deemed to be related to us by virtue of Section 6 of the Malaysia Companies Act.

(ii) During the last financial year and the current financial period up to the date of this Prospectus:

  (a) there were no public take-over offers by third parties in respect of our Company's shares; and

  (b) there were no public take-over offers by our Company in respect of other company's shares.

(iii) Save for the registered office of our Company in Malaysia, our Company does not have any other permanent establishment in Malaysia and has not established any other place of business outside Malaysia other than the PRC.

(iv) The name and address of our Auditors and Reporting Accountants are set out in Section 1 of this Prospectus.

(v) The manner in which copies of this Prospectus together with the Application Forms and envelopes may be obtained is set out in Section 17 of this Prospectus.

(vi) The date and time of the opening of the Application of the IPO is set out in Section 3.2 of this Prospectus.

(vii) The amount payable in full on application in respect of IPO Share is RM2.15 per Share and is subject to the terms and conditions as set out in this Prospectus.

(viii) Save as disclosed in Sections 11.1.2 and 11.4 of this Prospectus, our Directors and substantial shareholders are not aware of any persons who are able, directly or indirectly, jointly or severally, to exercise control over our Company and our subsidiary.

(ix) Apart from the listing sought on the Main Market, our Company is not listed on any stock exchange.

16.7 CONSENTS

(i) Our Adviser, Managing Underwriter, Underwriters and Sole Placement Agent, Legal Adviser for the IPO, Company Secretaries, Company Agent, Principal Banker, Auditors, Issuing House and Share Registrar have, before the issue of this Prospectus, given and have not subsequently withdrawn their written consents for the inclusion in this Prospectus of their names in the manner and form in which such names appear.

(ii) The written consent of KhattarWong, the Legal Adviser to the Company on Singapore Law, to the inclusion in this Prospectus of its name, the opinion pertaining to Policies on Foreign Investments, Taxation, Foreign Exchange Control and Repatriation of Profits Out of Singapore and Ownership of Title to Securities/Assets in Singapore and the opinion on Enforceability of Agreements, Representations and Undertaking under the Singapore Laws, in the manner and form in which they are contained in this Prospectus have been given before the issue of this Prospectus, and have not subsequently been withdrawn.

(iii) The written consent of Grandall Legal Group (Guangzhou), the Legal Adviser to the Company on PRC Law, to the inclusion in this Prospectus of its name, the report pertaining to Policies on Foreign Investments, Taxation, Foreign Exchange Control and Repatriation of Profits Out of PRC and opinion on the Ownership of Title to Securities/Assets in PRC and Enforceability of Agreements, Representations and Undertaking under the PRC Laws, in the manner and form in which they are contained in this Prospectus have been given before the issue of this Prospectus, and have not subsequently been withdrawn

(iv) The written consent of SJ Grant Thornton, the Reporting Accountants to the inclusion in this Prospectus of its name, Accountants' Report and letters relating to our proforma consolidated financial information and our proforma consolidated balance sheets in the manner and form in which they are contained in this Prospectus have been given before the issue of this Prospectus, and have not subsequently been withdrawn.

(v) The written consent of the Converging Knowledge to the inclusion in this Prospectus of its name, Executive Summary of the IMR Report dated 16 September 2009 (Updated on 1 March 2010) and extracts of the said Executive Summary of the IMR Report in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus, and has not subsequently been withdrawn.

16.8 RESPONSIBILITY STATEMENT

Our Directors and Promoters have seen and approved this Prospectus, and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm, after having made all reasonable enquiries, that to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement in this Prospectus false or misleading.

16.9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at our registered offices during office hours for a period of twelve (12) months from the date of this Prospectus:

(i) Our Memorandum and Articles of Association;

(ii) The Accountants' Report and Directors' Report as set out in Section 8 and Section 15 of this Prospectus respectively;

(iii) The Reporting Accountants' Letters relating to our proforma consolidated financial information as set out in Section 7.3 of this Prospectus;

(iv) The IMR Report together with the executive summary of the IMR Report as set out in Section 14 of this Prospectus;

(v) The service contract as set out in Section 11 of this Prospectus;

(vi) The material contracts as set out in Section 16.5 of this Prospectus;

(vii) The letters of consent referred to in Section 16.7 of this Prospectus; and

(viii) The audited consolidated financial statements of our Group for the FYE 2006, FYE 2007, FYE 2008 and FYE 2009.

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