

K-STAR SPORTS LIMITED

(Incorporated in Singapore under the Companies Act (Chapter 50) of Singapore)(Company Registration Number 200820976H)

(Registered as a foreign company in Malaysia under the Companies Act 1965 of Malaysia)

(Malaysian Branch Registration Number 995214-D)

A. NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2010

A1. Basis of accounting and changes in accounting policies

a) Basis of accounting

The interim financial statements of K-Star Sports Limited (the “Company” or “K-Star”) for the quarter ended 31 March 2010 are unaudited and have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” and Appendix 9B of the Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009, disclosed in the Prospectus dated 11 May 2010 and the accompanying explanatory notes attached to the interim financial statements.

b) Changes in accounting policies

There are no changes in accounting policies for the quarter ended 31 March 2010.

c) Basis of consolidation

The consolidated financial statements of the Group have been prepared using the historical cost method similar to the “pooling-of-interest” as acquisition of subsidiary is accounted for as reconstructions of businesses. Under the historical cost method, the acquired assets and liabilities are recorded at their existing carrying amounts.

The consolidated financial statements include the results of operations, and the assets and liabilities of the pooled enterprises as part of the Group for the whole of the current period.

Other than accounting of subsidiaries using the historical cost method as disclosed above, the results of the subsidiaries acquired during the financial year are included in the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Acquisitions of subsidiaries, if any, 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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All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiaries acquired or disposed of during the financial year are included or excluded from the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

d) Functional currency and translation to presentation currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group companies

The results and financial positions of the Group entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- (1)** Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial position;
- (2)** Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (3)** All resulting exchange differences are recognised as a separate component of equity.

A2. Audit report of the Group's preceding annual financial statements

The Group's audited consolidated financial statements for the financial year ended 31 December 2009 were not subject to any audit qualification.

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A3. Seasonal or cyclical factors

There are no seasonal or cyclical factors which materially affect the Group during the quarter under review.

A4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and financial year-to-date.

A5. Material changes in estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect on the results of the current quarter under review.

A6. Changes in share capital and debts

Save as disclosed below, there were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury shares and resale of treasury shares for the current financial year to date.

Details of the movements in the Company's shares since incorporation up to the date of this report are as follows:

Date of issue	Event	No. of shares issued	Issued and paid-up share capital SGD
3 November 2008	Cash	1	1
9 September 2009	Acquisition of Fujian Jinjiang Dixing Shoes Plastics Co., Ltd.	60,158,999	39,670,573
10 March 2010	Conversion of convertible loans	13,320,000	6,104,578
		<hr/>	<hr/>
		73,479,000	45,775,152

A7. Subsequent material events

Save as disclosed under note A11, there are no other material events as at the date of this announcement that will affect the results in the financial period under review.

The Company is expected to be listed on the Main Market of Bursa Securities on 4 June 2010.

A8. Financial instruments with off-balance sheet risks

There are no financial instruments with off-balance sheet risks as at the date of this report.

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A9. Segment information**a) Operating segments**

Three months ended 31 March 2010

	Design, manufacture, and sale of sports footwear	Design and sale of sports apparel and accessories	Total
	RMB 000	RMB 000	RMB 000
External revenue	134,211	9,829	144,040
Inter-segment revenue	-	-	-
Interest income	12	-	12
Interest expense	142	-	142
Depreciation and amortization	1,093	-	1,093
Reportable segments profit before tax	26,662	3,143	29,805

Reconciliation of reportable segment revenue and profit or loss**Revenue**

Total revenue for reportable segments	144,040
Elimination of inter-segment revenue	-
Consolidated revenue	144,040

Profit or loss

Total profit or loss for reportable segments	29,805
Unallocated amounts	(294)
Consolidated profit before income tax	29,511

Three months ended 31 March 2010

	Design, manufacture, and sale of sports footwear	Design and sale of sports apparel and accessories	Total
	RM 000	RM 000	RM 000
External revenue	64,140	4,697	68,837
Inter-segment revenue	-	-	-
Interest income	6	-	6
Interest expense	68	-	68
Depreciation and amortization	523	-	523
Reportable segments profit before tax	12,742	1,502	14,244

Reconciliation of reportable segment revenue and profit or loss**Revenue**

Total revenue for reportable segments	68,837
Elimination of inter-segment revenue	-
Consolidated revenue	68,837

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Profit or loss

Total profit or loss for reportable segments	14,244
Unallocated amounts	(141)
Consolidated profit before income tax	<u>14,103</u>

Three months ended 31 March 2009

	Design, manufacture, and sale of sports footwear	Design and sale of sports apparel and accessories	Total
	RMB 000	RMB 000	RMB 000
External revenue	131,042	-	131,042
Inter-segment revenue	-	-	-
Interest income	17	-	17
Interest expense	128	-	128
Depreciation and amortization	682	-	682
Reportable segments profit before tax	<u>25,802</u>	<u>-</u>	<u>25,802</u>

Reconciliation of reportable segment revenue and profit or loss**Revenue**

Total revenue for reportable segments	131,042
Elimination of inter-segment revenue	-
Consolidated revenue	<u>131,042</u>

Profit or loss

Total profit or loss for reportable segments	25,802
Unallocated amounts	(157)
Consolidated profit before income tax	<u>25,645</u>

Three months ended 31 March 2009

	Design, manufacture, and sale of sports footwear	Design and sale of sports apparel and accessories	Total
	RM 000	RM 000	RM 000
External revenue	62,625	-	62,625
Inter-segment revenue	-	-	-
Interest income	8	-	8
Interest expense	61	-	61
Depreciation and amortization	326	-	326
Reportable segments profit before tax	<u>12,331</u>	<u>-</u>	<u>12,331</u>

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Reconciliation of reportable segment revenue and profit or loss

Revenue

Total revenue for reportable segments	62,625
Elimination of inter-segment revenue	<u>-</u>
Consolidated revenue	<u>62,625</u>

Profit or loss

Total profit or loss for reportable segments	12,331
Unallocated amounts	<u>(75)</u>
Consolidated profit before income tax	<u>12,256</u>

b) Geographical segments

As the business of the Group is engaged entirely in the People's Republic of China ("PRC"), no reporting by geographical location of operation is presented.

A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Company's audited consolidated financial statements for the year ended 31 December 2009.

A11. Status of corporate exercise

As an integral part of the listing of and quotation for the entire issued and paid up share capital of the Company on the Main Market of Bursa Securities (as stated in the Company's Prospectus dated 11 May 2010), the Company has/will be undertaking the following;

(i) 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-Initial Public Offering ("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:

(a) 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.

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(b) Convertible Loan Agreements

On 18 September 2009, our Company together with our Promoter and substantial shareholder, K-Star Sports International Limited 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 Limited	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

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.

(ii) 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.

(iii) 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.

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(iv) Utilisation of proceeds

The total gross proceeds from the Public Issue amounting to approximately RM32.94 million are expected to be fully utilized for our core business in the following manner:

	Estimated time for utilisation	Proposed Utilisation RM 000	Actual Utilisation RM 000	Deviation RM 000
Expansion of production capacity	18 months	9,000	-	-
Expansion of sales and marketing network	12 months	5,000	-	-
Branding and advertising	12 months	3,000	-	-
Enhance product design and development capabilities	12 months	4,500	-	-
General working capital	12 months	5,440	-	-
Estimated listing expenses	6 months	6,000	-	-
Total gross proceeds		32,940	-	-

A12. Contingent liabilities

There were no material changes in the contingent liabilities or contingent assets since the last financial year ended 31 December 2009.

A13. Capital commitments

There were no authorised capital expenditure not provided for in the financial statements as at 31 March 2010.

A14. Changes in the composition of the Group

There are no other changes in the composition of the Group during the financial year-to-date.

A15. Reserves

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation of the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC authorities, and are not available for dividend distribution to the shareholders.

Merger reserve

The merger reserve arises from the difference between the cost of investment of subsidiary and the share capital of the subsidiary acquired under the pooling interest method of accounting.

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Currency translation reserve

Currency translation reserve represents translation differences arising from translation of foreign currency financial statements into presentation currency of the Group.

A16. Related party transactions

There were no related party transactions during the current quarter and the financial year to date.

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1. Review of performance

The Group achieved revenue and profit before taxation ("PBT") of RMB144.0 million and RMB29.5 million respectively for the current quarter ended 31 March 2010 ("1Q2010"), representing an increase of 9.9% and 15.2% respectively as compared to the corresponding period in preceding year ("1Q2009").

The increase in revenue is in line with the following:

- (i) Revenue contribution of RMB9.8 million from the initial soft launch of our apparel and accessories in the PRC market in 1Q2010.
- (ii) Increase in penetration in the PRC market. The number of retail locations of increased from 614 retail locations as at 31 March 2009 to 769 retail locations as at 31 March 2010.
- (iii) Increase in average selling price of shoes from RMB68.4 per pair in 1Q2009 to RMB74.5 per pair in 1Q2010.

The PBT of RMB29.5 million for 1Q2010 represents an increase of 15.2% as compared to the PBT of RMB25.6 million recorded for 1Q2009. The increase in PBT was mainly due to maiden revenue contribution of our sports apparel and accessories, higher revenue contribution by our footwear segment as well as an increase in our overall gross profit margin from 22.7% in 1Q2009 to 26.5% in 1Q2010.

The profit after taxation ("PAT") of RMB22.1 million for 1Q2010 represents an increase of 15.1% as compared to PAT of RMB19.2 million recorded for 1Q2009 due to the higher PBT recorded in 1Q2010 as mentioned above.

B2. Variation of results against immediate preceding quarter

	Current quarter 31 March 2010 RMB 000	Preceding quarter 31 December 2009 RMB 000
Revenue	144,040	141,952
Profit before taxation	29,511	30,055
Profit after taxation	22,060	22,405
Other comprehensive income:		
- Translation differences arising from foreign currency financial statements recognized directly in equity	-	-
Total comprehensive income for the period	<u>22,060</u>	<u>22,405</u>

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	Current quarter 31 March 2010 RM 000	Preceding quarter 31 December 2009 RM 000
Revenue	68,837	67,839
Profit before taxation	14,103	14,363
Profit after taxation	10,542	10,707
Other comprehensive income:		
- Translation differences arising from foreign currency financial statements recognized directly in equity	-	-
Total comprehensive income for the period	<u>10,542</u>	<u>10,707</u>

The Group recorded a revenue of RMB144.0 million for the quarter ended 31 March 2010 ("1Q2010"), representing an increase of 1.4% as compared to the revenue of RMB142.0 million as recorded for the quarter ended 31 December 2009 ("4Q2009"). The increase was mainly attributed to maiden revenue contribution of RMB9.8 million from the initial soft launch of our apparel and accessories in the PRC market in 1Q2010.

The profit after taxation ("PAT") of RMB22.1 million for 1Q2010 registered a marginal decrease of 1.3% as compared to the PAT of RMB22.4 million recorded for 4Q2009.

B3. Prospects for FYE 2010

Based on market research conducted by Converging Knowledge Pte Ltd, the annual average growth rate of the China's sportswear market is estimated to range from 11.7% to 15.8% from 2008 to 2012. As such and based on the improved sales recorded by the Group thus far, our Board of Directors believes that the Group's prospects for the financial year ending 31 December 2010 would be favorable.

B4. Profit forecast and profit guarantee

The Group has not provided any profit forecast or profit guarantee in any public document for the current financial quarter.

B5. Taxation

Taxation comprises the following:

	Current Quarter RMB 000	Current year to date RMB 000
PRC income tax	<u>7,451</u>	<u>7,451</u>

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	Current Quarter RM 000	Current year to date RM 000
PRC income tax	<u>3,561</u>	<u>3,561</u>

The effective tax rates of the Group for the current quarter and current year to date were 25.2% as compared to the applicable tax rate of 25%. The higher effective tax rate was due to expenses not deductible for tax purposes.

B6. Sale of unquoted investments and/or properties

There were no changes in the unquoted investments and/or properties of the Group in the current quarter and financial year to date.

B7. Quoted Securities

There was no purchase or disposal of quoted securities by the Group in the current quarter and financial year to date and there was no investment in quoted securities as at the end of the quarter.

B8. Group borrowings

The Group's borrowings as at 31 March 2010 were as follows:

	Total RMB 000	Total RM 000
Short-term bank borrowings – secured	<u>9,300</u>	<u>4,444</u>

B9. Changes in material litigation

As at the date of this report, there is no litigation or arbitration, which has a material effect on the financial position of the Group and the Board is not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B10. Dividend

There was no dividend declared by the Company for the current quarter and previous year corresponding period.

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B11. Earnings per share**a) Basic earnings per share**

	Individual and Cumulative Quarter Ended		Individual and Cumulative Quarter Ended	
	31.3.2010 RMB	31.3.2009 RMB	31.3.2010 RM	31.3.2009 RM
Profit attributable to equity holders of the Company	22,060,000	19,195,000	10,542,000	9,173,000
Weighted average number of ordinary shares in issue	63,415,000	60,159,000	63,415,000	60,159,000
Basic earnings per share	0.35	0.32	0.17	0.15

b) Diluted earnings per share

	Cumulative Quarter 3 Months Ended		Cumulative Quarter 3 Months Ended	
	31.3.2010 RMB	31.3.2009 RMB	31.3.2010 RM	31.3.2009 RM
Profit attributable to equity holders of the Company	22,060,000	19,195,000	10,542,000	9,173,000
Weighted average number of ordinary shares in issue	73,479,000	64,559,000	73,479,000	64,559,000
Diluted earnings per share	0.30	0.30	0.14	0.14

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer

31 May 2010