

## 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)

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2010

	Note	Individual quarter Quarter ended		Individual quarter Quarter ended	
		31.12.2010	31.12.2009 <i>(note b)</i>	31.12.2010 <i>(note a)</i>	31.12.2009 <i>(note a)</i>
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	160,164	141,952	74,893	66,377
Cost of sales		<u>(118,303)</u>	<u>(105,608)</u>	<u>(55,318)</u>	<u>(49,382)</u>
Gross Profit		41,861	36,344	19,575	16,995
Other income		112	56	52	26
Selling and distribution expenses		(5,157)	(954)	(2,411)	(446)
Administrative expenses	B1	(5,573)	(3,773)	(2,606)	(1,764)
Finance costs		<u>(230)</u>	<u>(160)</u>	<u>(108)</u>	<u>(75)</u>
Profit from continuing operations before taxation	B1	31,013	31,513	14,502	14,736
Taxation		<u>(8,432)</u>	<u>(8,026)</u>	<u>(3,943)</u>	<u>(3,753)</u>
Total profit for the period	B1	<u>22,581</u>	<u>23,487</u>	<u>10,559</u>	<u>10,983</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive income for the period		<u>22,581</u>	<u>23,487</u>	<u>10,559</u>	<u>10,983</u>
Attributable to :					
- Equity holders of the Company		<u>22,581</u>	<u>23,487</u>	<u>10,559</u>	<u>10,983</u>
<b>Earnings per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B11	8.48	13.01	3.97	6.08
Diluted (RMB cents/RM sen)	B11	8.48	10.65	3.97	4.98

**Notes:**

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the quarter ended 31 December 2010 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.4676 as at 31 December 2010. This translation should not be construed as a representation that the RMB amounts represented have been or could be converted into RM at this or any other rate.

(b) The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Audited Consolidated Financial Statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to the interim unaudited financial statements.

(c) There was no unrealised retained profits / (accumulated losses) for the quarter ended 31 December 2010.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Current Year To date 31.12.2010	Preceding Year To date 31.12.2009 <i>(note b)</i>	Current Year To date 31.12.2010 <i>(note a)</i>	Preceding Year To date 31.12.2009 <i>(note a)</i>
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	670,868	571,063	313,698	267,029
Cost of sales		(493,670)	(431,852)	(230,840)	(201,934)
Gross Profit		177,198	139,211	82,858	65,095
Other income		358	112	167	52
Selling and distribution expenses		(24,636)	(9,502)	(11,520)	(4,443)
Administrative expenses	B1	(28,742)	(10,426)	(13,439)	(4,875)
Finance costs		(731)	(565)	(342)	(264)
Profit from continuing operations before taxation	B1	123,447	118,830	57,724	55,565
Taxation		(35,200)	(30,522)	(16,460)	(14,272)
Total profit for the year	B1	88,247	88,308	41,264	41,293
Other comprehensive income after tax		-	-	-	-
Total comprehensive income for the year		88,247	88,308	41,264	41,293
Attributable to :					
-Equity holders of the Company		88,247	88,308	41,264	41,293
<b>Earnings per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B11	36.76	48.93	17.19	22.88
Diluted (RMB cents/RM sen)	B11	36.76	44.05	17.19	20.60

**Notes:**

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(b) The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Audited Consolidated Financial Statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to the unaudited interim financial statements.

(c) There was no unrealised retained profits / (accumulated losses) for the current year ended 31 December 2010.

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### CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Unaudited As At 31.12.2010	Audited As at 31.12.2009	Unaudited As At 31.12.2010 <i>(note)</i>	Audited As at 31.12.2009 <i>(note)</i>
	RMB'000	RMB'000	RM'000	RM'000
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	63,265	62,570	29,583	29,258
Land use rights	36,317	9,048	16,982	4,231
	99,582	71,618	46,565	33,489
<b>Current Assets</b>				
Inventories	13,494	11,006	6,310	5,147
Trade and other receivables	226,389	197,136	105,859	92,181
Cash and bank balances	124,078	35,542	58,019	16,619
	363,961	243,684	170,188	113,947
<b>Total assets</b>	463,543	315,302	216,753	147,436
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Share capital	285,075	189,268	133,301	88,502
Reserves	135,434	47,187	63,329	22,065
Equity component - convertible loan	-	1,467	-	686
	420,509	237,922	196,630	111,253
<b>Current Liabilities</b>				
Borrowings	15,300	42,932	7,154	20,075
Income tax payable	8,432	8,027	3,943	3,753
Trade and other payables	19,302	26,421	9,026	12,355
	43,034	77,380	20,123	36,183
<b>Total equity and liabilities</b>	463,543	315,302	216,753	147,436
<b>Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)</b>	157.85	395.49	73.81	184.93

**Notes:**

- (a) *The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 31 December 2010 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.4676 as at 31 December 2010. This translation should not be construed as a representation that the RMB amounts represented have been or could be converted into RM at this or any other rate.*
- (b) *The unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the Audited Consolidated Financial Statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to the unaudited interim financial statements.*
- (c) *The net assets per share attributable to equity holders of the Company is calculated based on the net assets as at 31 December 2009 and 31 December 2010 divided by the number of ordinary shares of 60,159,000 and 266,400,000 respectively.*

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to Equity Holders of the Company					
	Share capital RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Retained earnings RMB'000	Equity component - convertible loan RMB'000	Total equity RMB'000
At 1 January 2009	15,112	-	7,556	125,479	154	148,301
Total comprehensive income for the year	-	-	-	88,308	-	88,308
Share capital contribution	189,268	-	-	-	-	189,268
Equity component of convertible loan	-	-	-	-	1,313	1,313
Adjustment arising from Restructuring Exercise (note c)	(15,112)	(174,156)	-	-	-	(189,268)
At 31 December 2009	189,268	(174,156)	7,556	213,787	1,467	237,922
At 1 January 2010	189,268	(174,156)	7,556	213,787	1,467	237,922
Total comprehensive income for the year	-	-	-	88,247	-	88,247
Issue of ordinary shares	98,089	-	-	-	(1,467)	96,622
Share issue expenses pursuant to initial public offering	(2,282)	-	-	-	-	(2,282)
Transfer to statutory reserve	-	-	10,560	(10,560)	-	-
At 31 December 2010	285,075	(174,156)	18,116	291,474	-	420,509

	Attributable to Equity Holders of the Company					
	Share capital RM'000	Merger reserve RM'000	Statutory reserve RM'000	Retained earnings RM'000	Equity component - convertible loan RM'000	Total equity RM'000
At 1 January 2009	7,066	-	3,533	58,674	72	69,345
Total comprehensive income for the year	-	-	-	41,293	-	41,293
Share capital contribution	88,502	-	-	-	-	88,502
Equity component of convertible loan	-	-	-	-	614	614
Adjustment arising from Restructuring Exercise (note c)	(7,066)	(81,435)	-	-	-	(88,501)
At 31 December 2009 (note a)	88,502	(81,435)	3,533	99,967	686	111,253
At 1 January 2010	88,502	(81,435)	3,533	99,967	686	111,253
Total comprehensive income for the year	-	-	-	41,264	-	41,264
Issue of ordinary shares	45,866	-	-	-	(686)	45,180
Share issue expenses pursuant to initial public offering	(1,067)	-	-	-	-	(1,067)
Transfer to statutory reserve	-	-	4,938	(4,938)	-	-
At 31 December 2010 (note a)	133,301	(81,435)	8,471	136,293	-	196,630

**Notes:**

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(b) The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Audited Consolidated Financial Statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2010

	Twelve months Ended 31.12.2010 RMB'000	Twelve months Ended 31.12.2009 (note b) RMB'000	Twelve months Ended 31.12.2010 (note a) RM'000	Twelve months Ended 31.12.2009 (note a) RM'000
<b>Cash flows from operating activities</b>				
Profit before taxation	123,447	118,830	57,724	55,565
Adjustments for:				
Interest income	(329)	(73)	(154)	(34)
Interest expenses	731	565	342	264
Depreciation of property, plant and equipment	4,209	2,918	1,968	1,365
Loss/(gain) on disposal of property, plant and equipment	179	(36)	84	(17)
Amortisation of land use rights	474	197	221	92
Operating profit before working capital changes	128,711	122,401	60,185	57,235
(Increase)/decrease in inventories	(2,488)	8,401	(1,163)	3,928
Increase in trade and other receivables	(36,453)	(87,628)	(17,045)	(40,975)
Decrease in trade and other payables	(7,119)	(7,815)	(3,329)	(3,654)
Cash generated from operations	82,651	35,359	38,648	16,534
Interest received	329	73	154	34
Interest paid	(731)	(565)	(342)	(264)
Income tax paid	(34,795)	(27,182)	(16,270)	(12,710)
<b>Net cash generated from operating activities</b>	<b>47,454</b>	<b>7,685</b>	<b>22,190</b>	<b>3,594</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(5,112)	(12,038)	(2,391)	(5,629)
Downpayment for purchase of land	-	(7,200)	-	(3,367)
Proceeds from disposal of property, plant and equipment	29	80	14	37
Acquisition of land use right	(20,543)	-	(9,606)	-
<b>Net cash used in investing activities</b>	<b>(25,626)</b>	<b>(19,158)</b>	<b>(11,983)</b>	<b>(8,959)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares	98,089	-	45,866	-
Share issue expenses pursuant to initial public offering	(2,282)	-	(1,067)	-
Proceeds from bank borrowings	28,600	19,300	13,373	9,025
Repayment of bank borrowings	(28,600)	(12,000)	(13,373)	(5,611)
(Transfer of)/proceeds from convertible loan	(29,099)	26,054	(13,606)	12,183
Decrease of fixed deposit pledged	630	2,320	294	1,085
<b>Net cash generated from financing activities</b>	<b>67,338</b>	<b>35,674</b>	<b>31,487</b>	<b>16,682</b>
Net increase in cash and cash equivalents	89,166	24,201	41,694	11,317
Cash and cash equivalents at beginning of financial year	34,642	10,441	16,199	4,882
<b>Cash and cash equivalents at end of financial year</b>	<b>123,808</b>	<b>34,642</b>	<b>57,893</b>	<b>16,199</b>

**Notes:**

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(b) The Unaudited Condensed Consolidated Statements of Cash Flow should be read in conjunction with the Audited Consolidated Financial Statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to the unaudited interim financial statements.

**A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**

**A1. Basis of accounting and changes in accounting policies**

**a) Basis of accounting**

The financial statements of K-Star Sports Limited (the "Company" or "K-Star") for the quarter and year ended 31 December 2010 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards and Appendix 9B of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements.

The unaudited interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009. These explanatory notes attached to the financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since year ended 31 December 2009.

**Changes in accounting policies**

The accounting policies and presentation adopted by the Group for the interim financial statements are consistent with those adopted for the Group's consolidated audited financial statements for the year ended 31 December 2009, except for the following:

FRS 27	Consolidated and separate financial statements
FRS101	First-Time adoption of financial reporting standards
FRS103	Business combinations
INT FRS 117	Distributions of non-cash assets to owners
INT FRS 118	Transfer of assets from customers
Improvement to FRSs 2009	

The adoption of these new/revised FRS and INT FRS did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements except for the following:-

**FRS 27 (revised) Consolidated and Separate Financial Statements**

The revised FRS 27 requires the effects of all transactions with non-controlling interests to be accounted for as equity transactions if there is no change in control. Such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognized in profit or loss.

When control over a subsidiary is lost, any interest retained is re-measured to fair value and the resulting gain or loss is recognized in profit and loss.

Losses incurred by a subsidiary are allocated to the non-controlling interests even if these result in the non-controlling interests having deficit balances.

According to the transitional provisions, the revised FRS 27 has been applied prospectively, and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 January 2010. The changes will affect future transactions with non-controlling interests.

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### FRS 103 (revised) Business Combinations

The revised standard introduces a number of changes in the accounting for business combinations occurring after 1 July 2009. It retains the major features of purchase method of accounting, now referred to as the acquisition method. The most significant changes in FRS103 (revised) that had an impact on the Group's acquisitions in 2010 are as follows:

- Acquisition-related costs of the combination are recorded as an expense in the profit or loss. Previously, these costs would have been accounted for as part of the cost of the acquisition.
- The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless an exception and specific measurement rules are provided in the standard.
- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable
- Any indemnification asset promised by the seller in an acquisition is recognized at the date of acquisition. Previously, this possible compensation would not have been recognized as an asset and would have been adjusted against goodwill upon receipt from the seller.

FRS 103 (revised) has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. Business combinations for which the acquisition date is before 1 January 2010 have not been restated.

#### **b) 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.

Subsequent 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.

### c) **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 year 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 current financial year to date are as follows:

Date of issue	Event	No. of shares issued/ subdivided	Issued and paid-up share capital SGD
3 November 2008	Incorporation	1	1
9 September 2009	Acquisition of Fujian Jinjiang Dixing Shoes Plastics Co., Ltd. ("Fujian Dixing")	60,158,999	39,670,573
10 March 2010	Conversion of convertible loans	13,320,000	6,104,578
31 May 2010	Issue pursuant to the initial public offering	15,321,000	14,128,308
		<hr/>	<hr/>
		88,800,000	59,903,460
1 November 2010	Subdivision of 88,800,000 ordinary shares based on every 1 existing ordinary share held by the shareholders of the Company into 3 ordinary shares in the Company	266,400,000	59,903,460
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		266,400,000	59,903,460

### A7. Subsequent material events

There are no other material events as at the date of this announcement that will affect the results in the financial period under review.

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**A8. Financial instruments with off-balance sheet risks**

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

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

Year ended 31 December 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	641,390	29,478	670,868
Depreciation and amortization	4,683	-	4,683
Reportable segments profit before tax	131,545	9,656	141,201

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

Total revenue for reportable segments	670,868
Elimination of inter-segment revenue	-
Consolidated revenue	670,868

**Profit or loss**

Total profit or loss for reportable segments	141,201
Unallocated amounts	(17,754)
Consolidated profit before income tax	123,447

Year ended 31 December 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	299,914	13,784	313,698
Depreciation and amortization	2,189	-	2,189
Reportable segments profit before tax	61,511	4,515	66,026

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

Total revenue for reportable segments	313,698
Elimination of inter-segment revenue	-
Consolidated revenue	313,698

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	Total RM 000
<b>Profit or loss</b>	
Total profit or loss for reportable segments	66,026
Unallocated amounts	<u>(8,302)</u>
Consolidated profit before income tax	<u>57,724</u>

**Year ended 31 December 2009**

	Design, manufacture, and sale of sports footwear	Total
	RMB 000	RMB 000
External revenue	<u>571,063</u>	<u>571,063</u>
Interest income	112	112
Interest expense	565	565
Depreciation and amortization	<u>3,115</u>	<u>3,115</u>
Reportable segments profit before tax	<u>120,605</u>	<u>120,605</u>

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

<b>Revenue</b>	
Total revenue for reportable segments	571,063
Elimination of inter-segment revenue	<u>-</u>
Consolidated revenue	<u>571,063</u>
<b>Profit or loss</b>	
Total profit or loss for reportable segments	120,605
Unallocated amounts	<u>(1,775)</u>
Consolidated profit before income tax	<u>118,830</u>

**Year ended 31 December 2009**

	Design, manufacture, and sale of sports footwear	Total
	RM 000	RM 000
External revenue	<u>267,029</u>	<u>267,029</u>
Interest income	52	52
Interest expense	264	264
Depreciation and amortization	<u>1,457</u>	<u>1,457</u>
Reportable segments profit before tax	<u>56,395</u>	<u>56,395</u>

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<b>Reconciliation of reportable segment revenue and profit or loss</b>	<b>Total</b>
<b>Revenue</b>	<b>RM 000</b>
Total revenue for reportable segments	267,029
Elimination of inter-segment revenue	-
Consolidated revenue	<u>267,029</u>
<b>Profit or loss</b>	
Total profit or loss for reportable segments	56,395
Unallocated amounts	<u>(830)</u>
Consolidated profit before income tax	<u>55,565</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**

A. 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 had undertaken 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

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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.

### (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 implemented a public issue of 15,321,000 new Shares at an issue price of RM2.15 per Share.

### (iii) Listing

In conjunction with the Public Issue, our Company sought the listing of and quotation for its entire enlarged issued and paid-up share capital comprising 88,800,000 shares on the Main Market of Bursa Securities and was listed on 4 June 2010.

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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	1,000	-
Expansion of sales and marketing network	12 months	5,000	2,593	-
Branding and advertising	12 months	3,000	3,000	-
Enhance product design and development capabilities	12 months	4,500	1,379	-
General working capital	12 months	5,440	5,440	-
Estimated listing expenses (1)	6 months	6,000	6,043	(43)
<b>Total gross proceeds</b>		<b>32,940</b>	<b>19,455</b>	<b>(43)</b>

Note:

- (1) The deviation of RM43,000 have been financed from our internally generated funds.

### B. Subsequent to the listing exercise, the Company had undertaken the following:

#### (i) Subdivision of shares

The Company had completed the share split involving the subdivision of every 1 existing ordinary share held by the shareholders of the Company into 3 ordinary shares in the Company ("Subdivided Shares") on 1 November 2010. After the subdivision of shares, the enlarged share capital of the Company is SGD59,903,460 comprising 266,400,000 ordinary shares. The Subdivided Shares shall rank pari passu in all respect amongst themselves. It is to be noted that the shares of the Company do not have a par value attached.

#### (ii) Proposed sponsorship of a depository receipts programme in Taiwan ("TDR")

On 26 November 2010, the Company proposes to implement a sponsorship of a depository receipts programme in Taiwan involving the issuance of Taiwan Depository Receipts representing up to 100,000,000 ordinary shares in K-Star, which is equivalent to approximately 29.24% of the enlarged issued and paid-up share capital of K-Star. On 25 February 2011, the Company decided to abort the proposal in view of the uncertainty of the current economic conditions.

### A12. Contingent liabilities

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

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**A13. Capital commitments**

There were no authorized capital expenditure not provided for in the financial statements as at 31 December 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 subsidiary 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.

**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 MAIN MARKET LISTING REQUIREMENTS

#### B1. Review of performance

The Group achieved revenue and profit before taxation ("PBT") of RMB160.2 million and RMB31.0 million respectively for the current quarter ended 31 December 2010 ("4Q2010"), representing an increase of 12.8% and a decrease of 1.6% respectively as compared to the corresponding period in preceding year ("4Q2009").

The Group achieved revenue and profit before taxation ("PBT") of RMB670.9 million and RMB123.4 million respectively for the financial year ended 31 December 2010 ("FYE2010"), representing an increase of 17.5% and 3.9% respectively as compared to the financial year ended 31 December 2009 ("FYE2009").

The increase in revenue is in line with the following:

- (i) Revenue contribution of RMB29.5 million from our apparel and accessories in the PRC market in FYE2010.
- (ii) Increase in penetration in the PRC market. The number of retail locations increased from 760 retail locations as at 31 December 2009 to 859 retail locations as at 31 December 2010.
- (iii) Increase in average selling price of shoes from RMB72.4 per pair in FYE2009 to RMB74.8 per pair in FYE2010.

The PBT of RMB123.4 million for FYE2010 represents an increase of 3.9% as compared to the PBT of RMB118.8 million recorded for FYE2009. Higher revenue contribution from the apparel and accessories, and footwear products as well as an increase in our overall gross profit margin from 24.4% in FYE2009 to 26.4% in FYE2010 resulted in an increase in PBT. The increase in PBT was partially offset by an increase in sales and distribution expenses and administrative expenses. The higher sales and distribution expenses was attributed to an increase in advertising and promotion expenses. The increase in administrative expenses was mainly attributed to exchange loss arising from depreciation of United States Dollars against the RMB and an increase in business development expenses as well as part of listing expenses pursuant to our initial public offering of approximately RMB10.2 million ("Listing Expenses") been expensed off in FYE2010. Had the Listing Expenses been excluded, our PBT for FYE2010 would have increased to RMB133.6 million representing an increase of 12.5% as compared to FYE2009.

The profit after taxation ("PAT") of RMB88.2 million for FYE2010 represents a slight decrease of 0.1% as compared to PAT of RMB88.3 million recorded for FYE2009 mainly due to higher PRC tax recorded in FYE2010.



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**B2. Variation of results against immediate preceding quarter**

	<b>Current quarter 31 December 2010 RMB 000</b>	<b>Preceding quarter 30 September 2010 RMB 000</b>
Revenue	160,164	191,479
Profit before taxation	31,013	41,548
Profit after taxation	22,581	31,158
<b>Total comprehensive income for the period</b>	<b>22,581</b>	<b>31,158</b>

	<b>Current quarter 31 December 2010 RM 000</b>	<b>Preceding quarter 30 September 2010 RM 000</b>
Revenue	74,893	89,536
Profit before taxation	14,502	19,428
Profit after taxation	10,559	14,569
<b>Total comprehensive income for the period</b>	<b>10,559</b>	<b>14,569</b>

The Group recorded a revenue of RMB160.2 million for the quarter ended 31 December 2010 ("4Q2010"), representing a decrease of 16.3% as compared to the revenue of RMB191.5 million as recorded for the quarter ended 30 September 2010 ("3Q2010"). The decrease was mainly attributed to lower revenue contribution of both our sports footwear, sports apparel and accessories in the PRC market towards the end of the Winter/Autumn seasons.

The PBT of RMB31.0 million for 4Q2010 represents a decrease of 25.3% as compared to the PBT of RMB41.5 million recorded for 3Q2010 mainly due to the decrease in revenue.

The profit after taxation ("PAT") of RMB22.6 million for 4Q2010 registered a decrease of 27.6% as compared to the PAT of RMB31.2 million recorded for 3Q2010 due to lower PBT recorded in 4Q2010 as mentioned above.

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**B3. Prospects for FYE 2011**

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 2011 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	8,432	35,200
	-----	-----
	Current Quarter RM 000	Current year to date RM 000
PRC income tax	3,943	16,460
	-----	-----

The effective tax rates of the Group for the current quarter and current year to date were 27.2% and 28.5% respectively as compared to the applicable tax rate of 25%. The higher effective tax rate was due to expenses not deductible for tax purposes incurred by the Company.

**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 December 2010 were as follows:

	Total RMB 000	Total RM 000
Short-term bank borrowings – secured	<u>15,300</u>	<u>7,154</u>

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### 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

The Board of Directors recommends a first and final tax exempt dividend of 1.6 sen per share in respect of the financial year ended 31 December 2010 amounting to approximately RM4.3 million, which is subject to the shareholders' approval at the forthcoming Annual General Meeting. Details of the entitlement date and payment date for the proposed first and final tax exempt dividend will be announced at a later date.

The total tax exempt dividends proposed for the financial year ended 31 December 2010 represents approximately 10.3% of the net profit attributable to shareholders.

There was no dividend declared or paid by the Company in the previous corresponding year.

### B11. Earnings per share

#### a) Basic earnings per share

	Individual Quarter Ended		Individual Quarter Ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RMB	RMB	RM	RM
Profit attributable to equity holders of the Company	22,581,000	23,487,000	10,559,000	10,983,000
Weighted average number of ordinary shares in issue	266,400,000	180,477,000	266,400,000	180,477,000
Basic earnings per share (RMB cents/RM sen)	8.48	13.01	3.97	6.08

	Cumulative Quarter		Cumulative Quarter	
	Year Ended		Year Ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RMB	RMB	RM	RM
Profit attributable to equity holders of the Company	88,247,000	88,308,000	41,264,000	41,293,000
Weighted average number of ordinary shares in issue	240,066,000	180,477,000	240,066,000	180,477,000
Basic earnings per share (RMB cents/RM sen)	36.76	48.93	17.19	22.88

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For comparison purposes, the basic earnings per share for the quarter and year ended 31 December 2009 is calculated based on the number of pre-invitation shares of approximately 180,477,000 number of ordinary shares, which has been restated for the subdivision of shares as stated in item B(i) of Note A11.

**b) Diluted earnings per share**

	Individual Quarter Ended		Individual Quarter Ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RMB	RMB	RM	RM
Profit attributable to equity holders of the Company	22,581,000	23,487,000	10,559,000	10,983,000
Weighted average number of ordinary shares in issue	266,400,000	220,437,000	266,400,000	220,437,000
Diluted earnings per share (RMB cents/RM sen)	8.48	10.65	3.97	4.98

  

	Cumulative Quarter Year Ended		Cumulative Quarter Year Ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RMB	RMB	RM	RM
Profit attributable to equity holders of the Company	88,247,000	88,308,000	41,264,000	41,293,000
Weighted average number of ordinary shares in issue	240,066,000	200,457,000	240,066,000	200,457,000
Diluted earnings per share (RMB cents/RM sen)	36.76	44.05	17.19	20.60

The diluted earnings per share for the quarter and year ended 31 December 2010 is the same as the basic earnings per share as there were no potential dilutive ordinary shares as at 31 December 2010. The basic earnings per share for the quarter and year ended 31 December 2009 has been restated for the subdivision of shares as stated in item B(i) of Note A11.

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**B12. Realised and Unrealised Profits/(Losses)**

	<b>Preceding quarter ended 30 September 2010 RMB 000</b>	<b>Preceding quarter ended 30 September 2010 RM 000</b>
Total retained profits		
Realised	279,453	130,672
Unrealised	-	-
	<hr/>	<hr/>
	279,453	130,672
	<hr/>	<hr/>
	<b>Current financial year ended 31 December 2010 RMB 000</b>	<b>Current financial year ended 31 December 2010 RM 000</b>
Total retained profits		
Realised	291,474	136,293
Unrealised	-	-
	<hr/>	<hr/>
	291,474	136,293
	<hr/>	<hr/>

There were no comparatives for FYE 2009 as these comparative figures are not required in the first financial year of complying with the disclosure.

By Order of the Board

Ding Jianping  
Executive Chairman and  
Chief Executive Officer

28 February 2011