

## **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 FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2011**

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

##### **a) Basis of accounting**

The consolidated interim financial statements of K-Star Sports Limited (the “Company” or “K-Star”) and its subsidiary company (“the Group”) for the quarter ended 30 June 2011 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 consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended 31 December 2010. These explanatory notes attached to the interim 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 2010.

##### **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 audited consolidated financial statements for the year ended 31 December 2010.

##### **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, which is also the functional currency of the Group.

#### **(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 profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of transactions. Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates when the fair values are determined.

#### **(iii) Group companies**

The results and financial positions of all entities 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 rate at the end of reporting period;
- (2)** Income and expenses are translated at average exchange rates (unless the 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 currency translation differences are recognised in the currency translation reserve in 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 2010 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**

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 period to date.

### **A7. Subsequent material events**

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

### **A8. 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**

The Group has only one operating segment, which is the design, manufacture and sale of sports footwear, sports apparel and accessories.

However, the breakdown of the Group revenue by product type is as follows:

	<b>Six (6) months ended 30 June 2011</b>	
	<b><u>RMB'000</u></b>	<b><u>RM'000</u></b>
Sale of sports footwear	318,963	148,924
Sale of sports apparel and accessories	37,277	17,405
	<u>356,240</u>	<u>166,329</u>

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	<b>Six (6) months ended 30 June 2010</b>	
	<b><u>RMB'000</u></b>	<b><u>RM'000</u></b>
Sale of sports footwear	309,396	144,457
Sale of sports apparel and accessories	9,829	4,589
	<u>319,225</u>	<u>149,046</u>

**b) Geographical segments**

The Group operates predominantly in the People's Republic of China ("PRC"). Accordingly, no separate business and geographical segment information 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 2010.

**A11. Status of corporate exercise**

a) There was no corporate proposal announced but not completed as at 15 August 2011, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

b) Utilisation of proceeds

The total gross proceeds from the Public Issue amounting to approximately RM32.94 million have been fully utilised for our core business in the following manner:

	<b>Estimated time for utilisation</b>	<b>Proposed utilisation RM '000</b>	<b>Actual utilisation RM '000</b>	<b>Deviation RM '000</b>
Expansion of production capacity	18 months	9,000	9,000	-
Expansion of sales and marketing network	12 months	5,000	5,000	-
Branding and advertising	12 months	3,000	3,000	-
Enhance product design and development capabilities	12 months	4,500	4,500	-
General working capital	12 months	5,440	5,440	-
Estimated listing expenses <sup>(1)</sup>	6 months	6,000	6,043	(43)
<b>Total gross proceeds</b>		<b><u>32,940</u></b>	<b><u>32,983</u></b>	<b><u>(43)</u></b>

*Note:*

<sup>(1)</sup> The deviation of approximately RM43,000 have been financed through the Group's internally generated funds.

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**A12. Contingent liabilities**

There were no material changes in the contingent liabilities or contingent assets since the last financial year ended 31 December 2010.

**A13. Capital commitments**

There is no capital commitment as at 30 June 2011.

**A14. Changes in the composition of the Group**

There are no other changes in the composition of the Group during the financial period under review.

**A15. Reserves**

**a) Statutory reserve**

In accordance with the relevant laws and regulations of the PRC, the subsidiary company of K-Star 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.

**b) 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-of-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 higher revenue and profit before taxation (“PBT”) of RMB204.7 million and RMB40.4 million respectively for the current quarter three (3) months ended 30 June 2011 (“2Q2011”), representing an increase of approximately 16.8% and 89.2% respectively as compared to the preceding year corresponding quarter three (3) months ended 30 June 2010 (“2Q2010”).

For the six (6) months financial period ended 30 June 2011 (“1H2011”), the Group also recorded higher revenue and PBT of RMB356.2 million and RMB69.4 million respectively, representing an increase of approximately 11.6% and 36.3% respectively as compared to the preceding year six (6) months financial period ended 30 June 2010 (“1H2010”).

The increase in revenue is in line with the following:

- (i) Higher revenue contribution of RMB37.3 million from the sales of sports apparel and accessories in the 1H2011 as compared to RMB9.8 million in 1H2010; and
- (ii) Increase in penetration in the PRC market. The number of retail locations increased from 800 retail locations as at 30 June 2010 to 876 retail locations as at 30 June 2011.

The gross profit margin remains fairly consistent at approximately 26% for the 1H2011 and 1H2010 whilst the improving sales as mentioned above was the main attribute to the increase in PBT in the 1H2011 as compared to the 1H2010. The administrative expenses incurred during the 1H2011 had been lowered by approximately 61.5% was mainly due to unrealised exchange loss arising from weakening United States Dollars bank balances, higher business development expenses and listing expenses incurred in 1H2010.

The profit after taxation (“PAT”) of RMB51.6 million in the 1H2011 represents an increase of approximately 59.5% as compared to the PAT of RMB34.5 million recorded for the 1H2010. This was mainly due to higher PBT recorded in the 1H2011 as mentioned above.

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

	<b>Current quarter ended 30 June 2011 RMB '000</b>	<b>Preceding quarter ended 31 March 2011 RMB '000</b>
Revenue	204,699	151,541
Profit before taxation	40,445	28,918
Profit after taxation and total comprehensive income for the period	30,115	21,476

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	<b>Current quarter ended 30 June 2011 RM '000</b>	<b>Preceding quarter ended 31 March 2011 RM '000</b>
Revenue	95,574	70,754
Profit before taxation	18,884	13,502
Profit after taxation and total comprehensive income for the period	14,061	10,027

The Group registered higher revenue of RMB204.7 million in the 2Q2011, representing an increase of approximately 35.1% as compared to the revenue of RMB151.5 million recorded for the preceding quarter three (3) months ended 31 March 2011 ("1Q2011"). The increase was mainly attributed to higher revenue contribution from the sales of sport apparel and accessories amounted to RMB28.6 million as compared to 1Q2011 of RMB8.6 million. The lower sales in 1Q2011 were mainly due to lower production output in conjunction with the Chinese New Year festive holidays in the PRC during the quarter.

The PBT of RMB40.4 million recorded for the 2Q2011 represents an increase of approximately 39.9% as compared to the preceding quarter 1Q2011 of RMB28.9 million, mainly due to the improvement in sales. Similarly, the PAT for 2Q2011 has also improved by 38.9% as compared to 1Q2011.

**B3. Prospects for the financial year ending 31 December 2011**

Based on the improved sales recorded by the Group thus far, the Board of Directors of K-Star ("Board") believes that the Group's prospects for the financial year ending 31 December 2011 would remain positive.

**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:

	<b>Current Quarter RMB '000</b>	<b>Current year to date RMB '000</b>
PRC income tax	10,330	17,772

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	<b>Current Quarter RM '000</b>	<b>Current year to date RM '000</b>
PRC income tax	4,823	8,298

The effective tax rates of the Group for the current quarter and current year to date remain consistent at 25.5% and 25.6% respectively as compared to the applicable tax rate of 25%. The marginal difference of effective tax rate and the applicable tax rate was mainly due to non-deductible expenses incurred during the periods under review.

**B6. Sale of unquoted investments and/or properties**

The Group does not have any unquoted investment. There is no sale of unquoted investments and/or properties of the Group in the current quarter and financial year to date.

**B7. Purchase or disposal of 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 30 June 2011 were as follows:

	<b>Total RMB '000</b>	<b>Total RM '000</b>
Short-term bank borrowings – secured	12,300	5,743

**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**

On 25 February 2011, the Board proposed 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, of which the shareholders of K-Star have approved at the 2011 Annual General Meeting held on 24 June 2011. The securities of the Company will be traded and quoted Ex-Dividend from 22 August 2011 and the dividend will be made payable on 23 September 2011.



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The aforesaid tax exempt dividend proposed for the financial year ended 31 December 2010 represents approximately 10.3% of the net profit attributable to the shareholders of K-Star.

There were no dividends declared by the Company for the current quarter ended 30 June 2011.

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

	<b>Individual quarter ended</b>		<b>Individual quarter ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>RMB '000</b>	<b>RMB '000</b>	<b>RM '000</b>	<b>RM '000</b>
Profit attributable to equity holders of the Company	30,115	12,448	14,061	5,812
Weighted average number of ordinary shares in issue	266,400	236,094	266,400	236,094
Basic earnings per share (RMB cents/RM sen)	11.30	5.27	5.28	2.46

For comparison purposes, the basic earnings per share for the quarter ended 30 June 2010 is calculated based on the weighted average number of pre-invitation shares of approximately 236,094,000 number of ordinary shares, which has been restated for 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.

	<b>Cumulative quarter six (6)</b>		<b>Cumulative quarter six (6)</b>	
	<b>months ended</b>		<b>months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>RMB '000</b>	<b>RMB '000</b>	<b>RM '000</b>	<b>RM '000</b>
Profit attributable to equity holders of the Company	51,591	34,508	24,088	16,112
Weighted average number of ordinary shares in issue	266,400	213,297	266,400	213,297
Basic earnings per share (RMB cents/RM sen)	19.37	16.18	9.04	7.55

For comparison purposes, the basic earnings per share for the cumulative quarter six (6) months ended 30 June 2010 is calculated based on the weighted average number of pre-invitation shares of approximately 213,297,000 number of ordinary shares, which has been restated for 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.

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**b) Diluted earnings per share**

The diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares as at the respective balance sheet dates.

**B12. Realised and unrealised profits/(losses)**

	<b>Cumulative quarter</b>		<b>Cumulative quarter</b>	
	<b>six (6)</b>	<b>six (6)</b>	<b>six (6)</b>	<b>six (6)</b>
	<b>months</b>	<b>months</b>	<b>months</b>	<b>months</b>
	<b>ended</b>	<b>ended</b>	<b>ended</b>	<b>ended</b>
	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RMB '000</b>	<b>RMB '000</b>	<b>RM '000</b>	<b>RM '000</b>
Realised	333,973	249,628	155,932	116,551
Unrealised	(37)	(1,333)	(17)	(622)
<b>Total retained profits</b>	<b>333,936</b>	<b>248,295</b>	<b>155,915</b>	<b>115,929</b>

  

	<b>Preceding</b>	<b>Preceding</b>
	<b>quarter ended</b>	<b>quarter ended</b>
	<b>31 March</b>	<b>31 March</b>
	<b>2011</b>	<b>2011</b>
	<b>RMB '000</b>	<b>RM '000</b>
Realised	312,984	146,132
Unrealised	(34)	(16)
<b>Total retained profits</b>	<b>312,950</b>	<b>146,116</b>

By Order of the Board

Ding Jianping  
Executive Chairman and  
Chief Executive Officer

22 August 2011