

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 THIRD QUARTER ENDED 30 SEPTEMBER 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 September 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 the financial 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 financial 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, if any, 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.**

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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.

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:

	Nine (9) months ended 30 September 2011	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	473,896	237,043
Sale of sports apparel and accessories	51,939	25,980
	<hr/>	<hr/>
	525,835	263,023

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	Nine (9) months ended 30 September 2010	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	484,290	242,242
Sale of sports apparel and accessories	26,414	13,212
	<hr/>	<hr/>
	510,704	255,454

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 financial year ended 31 December 2010.

A11. Status of corporate exercise

a) Save for the announcement made by the Company on 18 October 2011 pertaining to the acquisition of a piece of state-owned leasehold land together with a five storey building by Fujian Jinjiang Dixing Shoes Plastics Co. Ltd., a wholly-owned subsidiary of the Company ("Acquisition"), there was no other corporate proposal announced but not completed as at 16 November 2011, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report. Barring any unforeseen circumstances, the Acquisition is expected to be completed within 1 month from the date of this 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 since the second quarter ended 30 June 2011.

A12. Contingent liabilities

There were no material changes in the contingent liabilities or contingent assets since the last annual statement of financial position ended 31 December 2010.

A13. Capital commitments

There is no capital commitment as at 30 September 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.

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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 recorded revenue and profit before taxation (“PBT”) of RMB169.60 million and RMB15.35 million respectively for the current quarter three (3) months ended 30 September 2011 (“3Q2011”), representing a decrease of approximately 11.43% and 63.06% respectively as compared to the preceding year corresponding quarter three (3) months ended 30 September 2010 (“3Q2010”). For the current quarter under review, however, has been challenging for the sport industry in China where the industry is increasingly competitive with the profit margin shrank. Raw material such as fabric and rubber used in the manufacturing of sport footwear has experienced a price hike. Labour has increasingly scarce in Fujian where the Group operates and ultimately increased the overall manufacturing costs.

The sales of original equipment manufacturer (“OEM”) products which accounted for approximately 12% of the total revenue, were lowered by 66.68% for the nine (9) months financial period ended (“FPE”) 30 September 2011 as compared to the preceding year corresponding period. This has, however, moderated by a 57.40% growth in the sales of the Group’s products under its proprietary brand, which accounted for approximately 88% of the total revenue for the FPE 30 September 2011.

There was a marginal increase of 2.96% in the Group’s revenues for FPE 30 September 2011 as compared to FPE 30 September 2010 where the overall growth was depressed by the 3Q2011 performance. An improvement was also noted from the sales of sports apparel and accessories which accounted for approximately 96.63% growth as compared to the FPE 30 September 2010.

The gross profit margin for the FPE 30 September 2011 has decreased to 25.57% from 26.50% recorded in the FPE 30 September 2010 was mainly due to higher production costs arising from the rising cost of raw materials and labour.

The sales and distribution expenses incurred during the FPE 30 September 2011 had been higher by approximately 80.71% as compared to the FPE 30 September 2010. This was mainly due to the Group has invested extensively in advertising and marketing activities which had resulted in the increasing amortisation of the prepaid amount of advertisement expenses and provision of subsidy to retail outlets incurred during the FPE 30 September 2011.

However, the Group’s administrative expenses for the FPE 30 September 2010 was lowered by approximately 36.43% as compared the FPE 30 September 2010. This was mainly due to the listing expenses relating to the Group’s initial public offering exercise of approximately RMB10.1 million incurred during the FPE 30 September 2010.

Due to the decrease in revenue growth, gross profit margin and the increase in overall expense ratio, the overall profitability of the Group for the FPE 30 September 2011 declined, which resulted a decrease in PBT and profit after taxation (“PAT”) of approximately 8.36% and 4.48% respectively as compared to the FPE 30 September 2010.

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The Group's PBT is arrived at after charging/(crediting) amongst others, the following:

	Individual quarter ended		Individual quarter ended	
	30 September 2011	30 September 2010	30 September 2011	30 September 2010
	RMB '000	RMB '000	RM '000	RM '000
Interest income	(163)	(84)	(82)	(42)
Other income including investment income	(404)	(17)	(202)	(9)
Interest expense	427	181	214	91
Depreciation	1,404	1,053	702	527
Amortisation	191	189	96	95
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3
(Gain)/Loss on foreign exchange	(352)	(30)	(176)	(15)
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

	Cumulative quarter nine (9)		Cumulative quarter nine (9)	
	30 September 2011	30 September 2010	30 September 2011	30 September 2010
	RMB '000	RMB '000	RM '000	RM '000
Interest income	(525)	(226)	(263)	(113)
Other income including investment income	(404)	(20)	(202)	(10)
Interest expense	722	501	361	251
Depreciation	4,020	3,148	2,011	1,575
Amortisation	566	286	283	143
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3

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(Gain)/Loss on foreign exchange	969	1,306	485	653
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

*1 *The Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no bad debts to be written off and no allowance for doubtful debts was required.*

*2 *The Directors are not aware of any circumstances which would render it necessary to write off any inventory or to make any allowance for slow moving inventory as at the date of this report.*

*3 *The Directors are not aware of any indication of impairment.*

N/A *Not applicable as the Group does not have any quoted or unquoted investments or properties, derivatives and exceptional items as at the date of this report.*

B2. Variation of results against immediate preceding quarter

	Current quarter ended 30 September 2011 RMB '000	Preceding quarter ended 30 June 2011 RMB '000
Revenue	169,595	204,699
Profit before taxation	15,347	40,445
Profit after taxation and total comprehensive income for the period	11,136	30,115

	Current quarter ended 30 September 2011 RM '000	Preceding quarter ended 30 June 2011 RM '000
Revenue	84,831	102,390
Profit before taxation	7,677	20,231
Profit after taxation and total comprehensive income for the period	5,570	15,064

The Group's revenue for the 3Q2011 amounted to RMB169.60 million, representing a decrease of approximately 17.15% as compared to the revenue of RMB204.70 million recorded for the preceding quarter three (3) months ended 30 June 2011 ("2Q2011"). The lower sales in 3Q2011 were due to the current economic condition in China where the industry has experienced a price hike on raw material and labour. Profit margin has been shrinking. Relatively, the sales of OEM products were affected as a result of unfavorable rate of margins being offered by the OEM customers.

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The PBT and PAT in the 3Q2011 decreased by RMB25.10 million and RMB18.98 respectively as compared to 2Q2011, representing a decrease of approximately 62.06% and 63.02% respectively. This was mainly due to the diminishing gross profit margin arising from higher costs of raw material and labour. Besides, the Group has also invested extensively in advertising and marketing activities which had resulted in the increasing amortisation of the prepaid amount of advertisement expenses and provision of subsidy to retail outlets.

B3. Prospects for the financial year ending 31 December 2011

The Group remains optimistic on the potential growth of the sports industry in China following the implementation of the China 12th Five Year Plan (2011-2015) and the National Fitness Plan (2011-2015) which continued to promote and provide momentum to the sports industry in China. The Group's current order in hand mark at approximately RMB237.58 million based on the recently concluded sales fair in October 2011.

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. Barring any unforeseen circumstances, the Group expects to continue to record satisfactory performance for the financial year ending 31 December 2011.

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	4,211	21,983
	Current Quarter RM '000	Current year to date RM '000
PRC income tax	2,107	10,996

The effective tax rates of the Group for the current quarter and current year to date were 27.44% and 25.95% respectively as compared to the applicable tax rate of 25%. The difference of effective tax rate and the applicable tax rate was mainly due losses of the Company not allowable for group relief.

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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 September 2011 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	8,000	4,002
Unsecured	9,680	4,842
	<u>17,680</u>	<u>8,844</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

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 were traded and quoted Ex-Dividend from 22 August 2011 and the dividend was paid on 23 September 2011.

The aforesaid tax exempt dividend proposed for the financial year ended 31 December 2010 represented 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 September 2011.

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

	Individual quarter ended		Individual quarter ended	
	30 September 2011 RMB'000	30 September 2010 RMB'000	30 September 2011 RM'000	30 September 2010 RM'000
Profit attributable to equity holders of the Company	11,136	31,158	5,570	15,586
Weighted average number of ordinary shares in issue	266,400	266,400	266,400	266,400
Basic earnings per share (RMB cents/RM sen)	4.18	11.70	2.09	5.85

For comparison purposes, the basic earnings per share for the quarter ended 30 September 2010 is calculated based on the weighted average number of pre-invitation shares of approximately 266,400,000 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 on 1 November 2010 ("Share Split").

	Cumulative quarter nine (9) months ended		Cumulative quarter nine (9) months ended	
	30 September 2011 RMB'000	30 September 2010 RMB'000	30 September 2011 RM'000	30 September 2010 RM'000
Profit attributable to equity holders of the Company	62,727	65,666	31,376	32,846
Weighted average number of ordinary shares in issue	266,400	231,192	266,400	231,192
Basic earnings per share (RMB cents/RM sen)	23.55	28.40	11.78	14.21

For comparison purposes, the basic earnings per share for the cumulative quarter nine (9) months ended 30 September 2010 is calculated based on the weighted average number of pre-invitation shares of approximately 231,192,000 number of ordinary shares, which has been restated for the Share Split.

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.

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B12. Realised and unrealised profits/(losses)

	Cumulative quarter nine (9) months ended 30 September 2011 RMB '000		Cumulative quarter nine (9) months ended 30 September 2010 RM '000	
Realised	344,955	280,789	172,546	140,450
Unrealised	117	(1,336)	59	(668)
Total retained profits	345,072	279,453	172,605	139,782

	Preceding quarter ended 30 June 2011 RMB '000		Preceding quarter ended 30 June 2010 RM '000	
Realised	333,973		167,053	
Unrealised	(37)		(19)	
Total retained profits	333,936		167,034	

By Order of the Board

Ding Jianping
 Executive Chairman and
 Chief Executive Officer

23 November 2011